JSC Open Investments and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements for the Year Ended 31 December 2005

JSC OPEN INVESTMENTS AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

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JSC OPEN INVESTMENTS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Open Investments and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2005, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

On behalf of Group's management the consolidated financial statements for the year ended 31 December 2005 were authorized for issue on 25 April 2006 by:

Sergey V. Bachin

General Director of JSC Open Investments

Moscow
25 April 2006

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Open Investments:

We have audited the accompanying consolidated balance sheet of JSC Open Investments and subsidiaries (the "Group") as of 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2005, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

25 April 2006
Moscow

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005

	Notes	31 December 2005 '000 USD	31 December 2004 '000 USD
ASSETS			
NON-CURRENT ASSETS:			
Goodwill	4	633	633
Intangible assets	5	62	-
Property, plant and equipment, net	6	65,465	49,510
Capital advances	7	41,520	-
Investment property	8	49,271	28,000
Land under construction, including land improvements	9	294,317	67,327
Available-for-sale investments		10	-
Value added tax recoverable		7,606	7,895
Deferred tax assets	17	586	469
		459,470	153,834
CURRENT ASSETS:			
Land held for resale		34,658	24,076
Inventories		355	410
Advances paid	33	7,725	4,902
Value added tax recoverable		6,470	4,681
Receivable from customers under construction contracts	33	21,160	3,854
Trade accounts receivable	33	1,116	661
Other receivables and prepaid expenses	10, 33	5,685	1,051
Loans issued	11, 33	3,690	8,480
Cash reserved at banks under currency control regulation		3,005	-
Cash and cash equivalents	12, 33	55,428	58,358
		139,292	106,473
TOTAL ASSETS		598,762	260,307
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	13	119,797	119,797
Additional paid-in-capital	14	19,024	19,024
Land under construction revaluation reserve	15	69,368	23,247
Retained earnings		36,147	20,482
Equity attributable to the shareholders of the parent company		244,336	182,550
Minority interest	16	5,901	-
		250,237	182,550
NON-CURRENT LIABILITIES:			
Deferred income tax liabilities	17	59,276	12,801
Long-term accounts payable	33	8,840	-
Long-term loans	18, 33	221,402	26,321
		289,518	39,122
CURRENT LIABILITIES:			
Short-term loans and accrued interest	19, 33	3,414	574
Trade and other accounts payable	20, 33	17,791	10,601
Tax liability, other than income tax		932	643
Current income tax liability		844	231
Payable to customers under construction contracts	33	29,854	26,586
Advances received from customers for land plots	33	6,172	-
		59,007	38,635
TOTAL EQUITY AND LIABILITIES		598,762	260,307

The notes on pages 9 to 40 form an integral part of these consolidated financial statements. Statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. Independent auditors' report is presented on page 2.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
REVENUE			
Rental income from investment property		2,896	3,162
Revenue under construction contracts	21, 33	67,710	32,344
Land sold		436	734
Hotel revenue		16,831	-
Revenue on rendering other services	33	5,255	500
		93,128	36,740
COST OF SALES			
Cost of rental services	23	(437)	(927)
Cost of construction contracts	22	(42,315)	(17,401)
Cost of land sold		(436)	(734)
Cost of hotel services	24, 33	(11,365)	-
Cost of other services	25, 33	(3,857)	-
		(58,410)	(19,062)
GROSS PROFIT		34,718	17,678
Selling, general and administrative expenses	26, 33	(12,877)	(5,515)
OPERATING PROFIT		21,841	12,163
Interest income	27, 33	1,309	364
Interest expense	28, 33	(4,694)	(3,420)
Gain on investment property revaluation	8	5,411	2,500
Gain on disposal of subsidiaries	32, 33	30	-
Net (loss)/gain on foreign currency operations		(1,895)	743
Other income		42	85
Other expenses	33	(484)	(643)
PROFIT BEFORE INCOME TAX AND CHANGE IN ACCOUNTING POLICY		21,560	11,792
Cumulative effect of change in accounting policy		-	8,730
PROFIT BEFORE INCOME TAX		21,560	20,522
INCOME TAX (including the effect of change in accounting policy)	17	(7,484)	(6,530)
NET PROFIT		14,076	13,992
Attributable to:			
Shareholders of the parent company		14,094	13,992
Minority interest	16	(18)	-
		14,076	13,992
PER SHARE in USD (basic and diluted)	29	3.93	6.64

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

'000 USD	Share capital	Additional paid-in-capital	Land under construction revaluation reserve	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interest	Total equity
Balance as of 31 December 2003	56,636	-	9,426	8,148	74,210	-	74,210
Issue for share capital and additional paid-in-capital	63,161	19,024	-	-	82,185	-	82,185
Net profit	-	-	-	13,992	13,992	-	13,992
Dividends declared	-	-	-	(1,864)	(1,864)	-	(1,864)
Revaluation surplus (Note 15)	-	-	14,027	-	14,027	-	14,027
Revaluation on assets disposed off (Note 15)	-	-	(206)	206	-	-	-
Balance as of 31 December 2004	**119,797**	**19,024**	**23,247**	**20,482**	**182,550**	**-**	**182,550**
Net profit	-	-	-	14,094	14,094	(18)	14,076
Decrease in deferred tax liability due to changes in tax base of assets	-	-	-	1,571	1,571	-	1,571
Revaluation surplus (Note 15)	-	-	48,763	-	48,763	635	49,398
Increase in minority interest due to change in investment in subsidiary	-	-	(2,642)	-	(2,642)	5,284	2,642
Balance as of 31 December 2005	**119,797**	**19,024**	**69,368**	**36,147**	**244,336**	**5,901**	**250,237**

The notes on pages 9 to 40 form an integral part of these consolidated financial statements. Statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. Independent auditors' report is presented on page 2.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 000'USD	Year ended 31 December 2004 000'USD
OPERATING ACTIVITIES:			
Profit before income tax		21,560	20,522
Adjustments for:			
Depreciation expense	6	1,800	40
Interest income	27	(1,309)	(364)
Interest expense	28	4,694	3,420
Gain on disposal of subsidiaries	32	(30)	-
Revaluation of investment property		(5,411)	(11,230)
Operating cash flow before movements in working capital		21,304	12,388
Decrease / (increase) in inventories		55	(55)
Increase in receivable from customers under construction contracts		(17,306)	(1,517)
Increase in other receivables and prepaid expenses		(11,068)	(73)
(Increase) / decrease in trade accounts receivable		(433)	78
Increase in value added tax recoverable		(7,205)	(8,619)
Increase in advances paid		(2,769)	(3,938)
Increase in long-term payables		8,840	-
Increase / (decrease) in trade and other accounts payable		3,784	(8,857)
Increase in payable to customers under construction contracts		3,704	19,670
Increase in advances received from customers for land plots		6,172	-
Increase in tax liability		242	20
Cash provided by operations		5,320	9,097
Interest paid		(5,994)	(3,463)
Income tax paid		(841)	(2,281)
Net cash (used in) / from operating activities		**(1,515)**	**3,353**
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired	31	(95,330)	21,387
Disposal of subsidiaries, net of cash disposed	32	125	-
Loans issued		(13,753)	(8,857)
Loans repaid		14,151	1,073
Interest received		1,421	364
Purchase of available-for-sale investments		(10)	-
Purchase of property, plant and equipment and other non-current assets		(48,584)	(9,713)
Land and land improvements		(58,252)	(20,686)
Net cash used in investing activities		**(200,232)**	**(16,432)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 000'USD	Year ended 31 December 2004 000'USD
FINANCING ACTIVITIES:			
Proceeds from issuance of share capital		-	82,185
Dividends paid		-	(1,864)
Proceeds from loans		238,790	5,000
Cash reserved at banks under currency control regulation		(3,005)	-
Repayment of loans		(36,803)	(30,000)
Net cash from financing activities		**198,982**	**55,321**
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(165)	(893)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(2,930)	41,349
CASH AND CASH EQUIVALENTS, beginning of the year	12	58,358	17,009
CASH AND CASH EQUIVALENTS, end of the year	12	55,428	58,358

Interest expense capitalized by the Group during the year ended 31 December 2005 amounted to USD 5,069 thousand. Capitalized interest expense in the amount of USD 375 thousand was unpaid as of 31 December 2005.

The Group did not capitalize any interest expense during the year ended 31 December 2004.

The notes on pages 9 to 40 form an integral part of these consolidated financial statements. Statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. Independent auditors' report is presented on page 2.

1. NATURE OF THE BUSINESS

JSC Open Investments (the "Company") is a Moscow-based real estate development, management and investment company. It was incorporated in Moscow, Russian Federation, on 4 September 2002 as an Open Joint Stock Company under the laws of the Russian Federation. The Company's business strategy focuses on developing, managing and disposing of investment grade Class A and Class B office buildings, residential housing, and commercial real estate. The principal operating office of the Company is as follows: Novoslobodskaya str., 23, Moscow, 127055, Russian Federation.

The Company is a parent company of a group of entities consolidated in the financial statements (the "Group") as of 31 December 2005 and 2004.

The principal activities and countries of incorporation of the entities of the Group as of 31 December 2005 and 2004 are as follows:

Operating entity	Project	Principal activity	Investment share as of 31 December 2005	Investment share as of 31 December 2004	Country of incorporation
Growth Technologies (Russia) Limited	Group's projects	Providing consulting services in connection with investment in real estate market; Co-investing in real estate projects	100%	100%	Cyprus
Pavlovo LLC	Pavlovo	Investing in, developing, managing and disposing Pavlovo project assets	100%	100%	Russia
Pavlovo Podvorye LLC	Pavlovo Podvorye	Investing in, developing, managing and disposing Pavlovo Podvorye project assets	100%	100%	Russia
Stroy Invest Group LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	100%	Russia
Sakharova Business Plaza LLC	Sakharov Business Plaza project	Land lease holding company. Investing in, developing, managing and disposing Sakharov Business Plaza project assets	60%	100%	Russia
Bank Tower LLC	Sakharov Business Plaza project	Investor and future owner of the Rosbank Building	-	100%	Russia
Sakharov Office Park LLC	Sakharov Business Plaza project	Investor and future owner of the Commercial Part of Sakharov Business Plaza	100%	100%	Russia
Investproject Group LLC	An A Class Office Center	Investing in, developing, managing and disposing of a Class A Office Centre assets	100%	100%	Russia

Operating entity	Project	Principal activity	Investment share as of 31 December 2005	Investment share as of 31 December 2004	Country of incorpo-ration
Yacht-club "Pestovsky" LLC	Pestovo	Investing in, developing, managing and disposing of Pestovo project assets	100%	100%	Russia
Estate Management LLC	Group's project	Development, sale and property management of Pestovo project assets	100%	100%	Russia
Invest Group LLC	Group's project	Investing in, developing, managing and disposing of a future project assets	100%	100%	Russia
OI Management Company LLC	Group's project in Tver Region	Investing in, developing, managing and disposing of a future Tver project assets	100%	100%	Russia
ExpoDom LLC	Group's real property	Providing property management and maintenance services	100%	100%	Russia
IR Development Ltd	Group's development projects	Providing technical supervision and construction management services	100%	100%	Russia
Pestovo LLC	Pestovo	Investing in, developing, managing and disposing of Pestovo project assets	100%	100%	Russia
Open Investments - Saint Petersburg LLC	Group's projects in Saint-Petersburg	Investing in, developing, managing and disposing of future Saint-Petersburg projects' assets	100%	100%	Russia
Zhilaya i Commercheskaya Nedvizhimost LLC	Group's project	Investing in, developing, managing and disposing of a future project assets	100%	100%	Russia
JSC Hotel Novoslobodskaya	Novotel Moscow Center Hotel	Providing hotel services	100%	100%	Russia
Stroy Group LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	-	Russia
Proekt Capital LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	-	Russia
Stroy Servis Group LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	-	Russia
Martemianovo LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	-	Russia
Amalia LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	-	Russia

Operating entity	Project	Principal activity	Investment share as of 31 December 2005	Investment share as of 31 December 2004	Country of incorpo-ration
INNOMOTORS LLC	Zhukov Plaza	Investing in, developing, managing and disposing of a Class A Office Centre assets	100%	-	Russia
Krasnaya Gorka LLC	Samara	Investing in, developing, managing and disposing Samara project assets	100%	-	Russia
Belyi Parus LLC	Sochi Hotel and Residential Complex	Investing in, developing, managing and disposing Sochi Hotel and Residential Complex assets	100%	-	Russia
Invest Nedvizhimost LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	-	Russia
Lukino LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	-	Russia
Proekt Stroy LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	-	Russia

Besides the Group owns 100% of shares in Closed Unit Investment Fund Novy Dom ("New House") managed by LLC Management Company Rosbank.

As of 31 December 2005 and 2004 the shareholders' structure of the Company was as follows:

Shareholder	31 December 2005	31 December 2004
MOTHERLANE PROPERTIES LIMITED	61.47%	58.49%
CJSC INTERROS ESTATE	0.00%	2.98%
OTHERS	38.53%	38.53%
Total	100.00%	100.00%

Ultimate owners of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov. Each of them indirectly holds 30.73% shares of the Company.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation – The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in thousands of United States Dollars ("USD"), unless otherwise indicated.

All entities of the Group, except for Growth Technologies (Russia) Limited maintain their accounting records in Russian Roubles ("RUR") in accordance with the accounting and reporting regulations of the Russian Federation. Growth Technologies (Russia) Limited maintains its accounting records in USD and in accordance with IFRS.

The Group's management has decided to present and measure these consolidated financial statements in US Dollars (functional currency) for the following reasons:

- The majority of the Group's transactions are denominated or completed in US Dollars;
- Owing to the nature of the Group's business, most of management's economic and operational decisions are based on US Dollars;
- The management believes that US Dollars reporting will better reflect the economic substance of the underlying events and circumstances relevant to the Group.

Russian statutory accounting principals and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Russian statutory accounting records for the entities of the Group domiciled in the Russian Federation, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statements caption.

As the management measures the financial statements of the entities domiciled in the Russian Federation in US Dollars, in translating financial statements of the entities domiciled in the Russian Federation into US Dollars for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS No. 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are performed:

- Monetary assets and liabilities are translated at closing rate;
- Non-monetary assets and liabilities are translated at rate as of an asset purchase date or date when a liability arises;
- Income and expense items are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are recorded as gain on foreign currency operations in the consolidated income statement.

The relevant exchange rate of the Central Bank of the Russian Federation used in translating the financial statements of the entities domiciled in the Russian Federation into US Dollars was USD 1 = 28.7825 RUR as of 31 December 2005 and USD 1 = 27.7487 RUR as of 31 December 2004.

The translation of RUR denominated assets and liabilities into USD as of 31 December 2005 and 2004 does not indicate that the Group could realize, or settle in USD, the translated value of these assets and liabilities as well as to distribute the disclosed amount of equity to shareholders.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- Fair value of subsidiaries acquired in accordance with IFRS No. 3 "Business Combinations" ("IFRS 3");
- Valuation of land under construction in accordance with IAS No. 16 "Property, Plant and Equipment" ("IAS 16");
- Valuation of investment property in accordance with IAS No. 40 "Investment property" ("IAS 40");
- Valuation of financial instruments in accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

Use of estimates and assumptions – The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

	31 December 2005 '000 USD
Investment property	49,271
Land under construction, including land improvements	294,317

Investment property and land under construction, including land improvements are measured at the revalued amounts and the date of the latest appraisal was 31 December 2005. Management believes that the next revaluation of investment property and land under construction, including land improvements, existing as of 31 December 2005 would not be materially different in the next financial year from the carrying balance. Next appraisal is due on 30 June 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The ownership interest of the Company in the significant subsidiaries as of 31 December 2005 and 2004 is presented in Note 1.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is recognized as an asset and reviewed for impairment annually. Any impairment is recognized immediately in income statement and is not subsequently reversed.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Recognition and measurement of financial instruments – The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Provisions – Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital and additional paid-in-capital– Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at cost. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS No. 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Retirement and other benefit obligations – The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Contingencies – Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Foreign currencies transactions – Transactions in currencies other than US dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation differences are recognized in the consolidated income statement.

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Revenue recognition – Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales are recognized net of value added tax.

Revenue from the sales of land is recognized when legal title passes to the buyer.

The Group concludes with its clients contracts for construction of houses on the land owned by the Group. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. The Group concludes fixed price contracts in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

Contract revenue comprises of the initial amount of revenue agreed in the contract and of variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

Contract costs comprise of costs that relate directly to the specific contract; costs that are attributable to contract activity in general and can be allocated to the contract; and other costs as are specifically chargeable to the customer under the terms of the contract.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract is recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date. An expected loss on the construction contract is recognized as an expense immediately.

Interest income and expense are recognized on an accrual basis using effective interest rate method. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission incomes/expenses are recognized on an accrual basis. Non-interest expenses are charged to the consolidated income statement at the time the transaction occurs, except for expenses incurred on the acquisition of an investment which are included in the cost of that investment and expenses arising on the disposal of investments which are deducted from the disposal proceeds.

Bank commissions –Bank commissions include loan and guarantees origination fees, as well as loan servicing fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Guarantees origination fees are deferred, together with the related direct costs, and recognized as an expense during the guarantee period. Loan servicing fees are recognized as an expense as the services are provided. Other commissions are recognized when services are provided.

Intangible assets –Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, which is on average 5 years.

Property, plant and equipment – Property, plant and equipment are carried at historical cost, except for owner-occupied property transferred from investment property, less accumulated depreciation and any accumulated impairment loss. Capitalized cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to income statement as incurred.

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

Depreciation of property, plant and equipment is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Fittings and fixtures	6.7-10%
Machinery and equipment	20%
Transport	20%
Furniture and office equipment	20%

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.
An impairment is recognized in the respective period and is included in operating expenses.
After the recognition of an impairment loss the depreciation charge for property, plant and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Impairment loss – If the recoverable amount of an asset is less that its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the consolidated income statement for the year in which it arises.

Capital advances – Capital advances represent amounts paid to vendors for capital construction, acquisition of property, plant and equipment, land plots and investment property. They are carried at cost.

Land under construction – Land under construction represents land which is in the process of development by the Group. The management elected to follow alternative treatment and subsequent to initial recognition to carry such land at a revalued amount determined by an independent appraisal, being its fair value at the date of the revaluation. Management plans to perform revaluation of the land under construction with sufficient regularity such that the carrying amount does not differ materially from what which would be determined using fair value at the reporting date.

When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as revaluation reserve. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be debited directly to equity under revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

If after the development process the management's intentions related to a certain land parcel is changed such parcel is transferred to the land held for resale category and its carrying amount at the date of transfer is considered as its cost starting that date.

Land held for resale – Land held for resale represents land parcels containing houses constructed under contracts and with the intention of being sold once the construction is completed. Land held for resale is stated at the lower of cost or fair value in accordance with IFRS No. 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5").

Investment property – Investment property is a property (land or a building-or part of a building – or both) held by the Group to earn rentals or for capital appreciation or both, as well as a property held for a currently undetermined future use. Investment property is originally recorded at cost. Subsequent expenditure relating to an investment property that has already been recognized are added to the carrying amount of the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other subsequent expenditures are recognized as an expense in the period in which it is incurred.

The Group elected to use the fair value model to measure investment property subsequent to initial recognition, therefore investment property is stated at fair value (also see below ***Change in accounting policy***).

For a transfer from investment property carried at fair value to owner-occupied property or property held for sale, the property's fair value at the date of transfer is considered as deemed cost for subsequent accounting in accordance with IAS 16 and IFRS 5.

Inventories – Inventories are stated at the lower of cost or net realizable value.

Trade and other accounts receivable – Trade and other accounts receivable are stated at their net realizable value after deducting impairment provisions (if any).

Cash and cash equivalents – Cash include petty cash, cash held on current bank accounts and short-term deposits with banks. Cash equivalents include short-term investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

Borrowings – All loans are initially recorded at the proceeds received, net of direct transaction costs. Subsequently loans and borrowings are measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

Originated loans – Loans originated by the Group are financial assets that are created by the Group by providing money to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. Originated loans are carried at amortized cost, less any provision for impairment losses.

Loans originated by the Group at rates below the market are discounted to fair value using the effective interest method.

Borrowing costs – The management elected to follow alternative treatment as allowed by IAS No.23 "Borrowing Costs". Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Trade and other accounts payable – Liabilities for trade and other accounts payable are stated at cost.

Operating leases – Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Group as lessee – Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Group as lessor – The Group presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the consolidated income statement in the period in which they are incurred.

Taxation – Taxes on income are computed in accordance with the laws of the Russian Federation and Cyprus. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred income tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Russia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Business and geographic segments – For management purposes the Group is organized into four major business segments: residential property, commercial property development, commercial property and hotel operations. The operations of all segments are based in the Russian Federation.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

Change in accounting policy – In 2004 the Group made a decision to account for the investment property using the fair value model including the gain from a change in the fair value of investment property in net profit or loss for the period in which it arises. As of 31 December 2003 the investment property was accounted for using the cost model.

In accordance with IAS No. 8 "Net Profit and Loss for the Period, Fundamental Errors and Changes in Accounting Policy", changes classified as a change in accounting policy are applied retrospectively to ensure enhanced reflection of events and transactions, presentation of more relevant and reliable information. The Group elected the allowed alternative treatment, thus all adjustments due to change in accounting policy related to the previous periods are reflected in adjustment of the net profit or loss for the year ended 31 December 2004.

Reclassifications – Following reclassifications have been made to the consolidated financial statements for the year ended 31 December 2004 to conform to the presentation for the year ended 31 December 2005 as current period presentation provides better view of the consolidated financial statements:

Nature of reclassification	**Amount '000 USD**	**Income statement caption as per the previous report**	**Income statement caption as per current report**
Reclassification of property tax	18	Other expenses	Selling, general and administrative expenses
Reclassification of property tax	387	Other expenses	Cost of rental services
Reclassification of direct operating expenses arising on the investment property	540	Selling, general and administrative expenses	Cost of rental services
Reclassification of long-term portion of value added tax recoverable	7,895	Current assets	Non-current assets

Adoption of new standards – The Group has decided to commence the earlier application of IAS 1, IAS 16, IAS No. 24 "Related Party Disclosures" ("IAS 24"), IAS No. 27 "Consolidated and Separate Financial Statements" ("IAS 27"), IAS No. 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32"), IAS 39, IAS 40 (with amendments effective 1 January 2005) and IFRS 5 from 1 January 2005 for the year ended 31 December 2005.

***Adoption of new standards effective after the reporting date* - ** The Group provided an assessment of the effect of changes on its financial position and results of operations reported under IFRS which would become effective for accounting periods beginning after 31 December 2005.

In accordance with the provisions of IFRS No. 7 “Financial Instruments: Disclosures” (“IFRS 7”) effective from 1 January 2007 the Group should present additional information regarding financial instruments. The Group assessed the influence of requirements under IFRS 7 and developed a plan for systems to provide appropriate level of disclosures.

In accordance with the provisions of IAS No.1 “Presentation of Financial Statements” effective from 1 January 2007 the Group should present additional information regarding managing capital. The Group assessed the influence of requirements under IAS 1 and developed a plan for systems to provide appropriate level of disclosures.

4. GOODWILL

	‘000 USD
At 31 December 2004	633
Change for the period	-
At 31 December 2005	**633**

5. INTANGIBLE ASSETS

Intangible assets as of 31 December 2005 and 2004 consisted of the following:

‘000 USD	**Computer software**	**Trademarks and logotypes**	**Total**
Cost			
At 31 December 2004	-	-	-
Additions	46	16	62
At 31 December 2005	46	16	62
Accumulated amortisation			
At 31 December 2004	-	-	-
Charge for the period	-	-	-
At 31 December 2005	-	-	-
Carrying amount			
At 31 December 2004	**-**	**-**	**-**
At 31 December 2005	**46**	**16**	**62**

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 31 December 2005 and 2004 consisted of the following:

'000 USD	Land and buildings	Fittings and fixtures	Transport, machinery and equipment	Furniture and office equipment	Construction in progress	Total
Cost						
At 31 December 2004	37,600	91	732	464	11,051	49,938
Additions	186	75	345	495	6,396	7,497
Acquisition of subsidiaries (Note 31)	-	-	-	27	-	27
Transfer from investment property (Note 8)	10,233	-	-	-	-	10,233
Transfer from land under construction (Note 9)	121	-	-	-	-	121
Transfer to land improvements (Note 9)	-	-	-	-	(121)	(121)
Transfers	-	4,458	792		(5,250)	-
At 31 December 2005	48,140	4,624	1,869	986	12,076	67,695
Accumulated depreciation						
At 31 December 2004	-	13	310	105	-	428
Acquisition of subsidiaries (Note 31)	-	-	-	2	-	2
Charge for the period	1,161	196	348	95	-	1,800
At 31 December 2005	1,161	209	658	202	-	2,230
Net Book Value						
At 31 December 2004	37,600	78	422	359	11,051	49,510
At 31 December 2005	**46,979**	**4,415**	**1,211**	**784**	**12,076**	**65,465**

Construction in progress includes mainly construction of the A. I. Raikin Retail and Entertainment Centre and infrastructure of Pavlovo Cottage Community.

As of 31 December 2005 building with a book value of USD 36,675 thousand has been pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 18).

During the year ended 31 December 2005 the Group capitalized borrowing costs in construction in progress in the amount of USD 82 thousand.

7. CAPITAL ADVANCES

Capital advances as of 31 December 2005 consisted of the following:

	'000 USD
Advance payment for the acquisition of land plots	2,290
Other capital advances	39,230
Total	**41,520**

During the year ended 31 December 2005 the Group capitalized borrowing costs in advances paid for capital expenses in the amount of USD 398 thousand.

8. INVESTMENT PROPERTY

'000 USD	Buildings	Land plots	Land plots with buildings	Total
At 31 December 2004	28,000	-	-	28,000
Transfer from land under construction, including land improvements (Note 9)	-	-	4,269	4,269
Transfer to property, plant and equipment (Note 6)	(10,233)	-	-	(10,233)
Acquisition of subsidiaries (Note 31)	-	10,359	11,465	21,824
Change in fair value	1,904	641	2,866	5,411
At 31 December 2005	**19,671**	**11,000**	**18,600**	**49,271**

9. LAND UNDER CONSTRUCTION, INCLUDING LAND IMPROVEMENTS

Land under construction, including land improvements as of 31 December 2005 and 2004 consisted of:

'000 USD	Land plots	Land improvements	Total
At 31 December 2004	50,120	17,207	67,327
Additions	34,984	60,513	95,497
Transfer to investment property (Note 8)	(1,128)	(3,141)	(4,269)
Transfer to property, plant and equipment (Note 6)	(121)	-	(121)
Transfer from property, plant and equipment (Note 6)	-	121	121
Acqusition of subsidiaries (Note 31)	113,212	-	113,212
Revaluation surplus	65,480	-	65,480
Disposal of subsidiaries (Note 32)	-	(578)	(578)
Transfer to land for resale	(11,018)	-	(11,018)
Transfer to cost of construction contracts (Note 22)	-	(31,334)	(31,334)
At 31 December 2005	**251,529**	**42,788**	**294,317**

Land is recorded at revalued amount determined by independent appraisers considering the existing improvements but without account for incurred costs of putting these improvements, by applying the income approach where the valuation is based on the estimation of property's forecasted income. For land under construction in Pavlovo and Pavlovo 2 projects valuation was made based on combing income and comprisal approach with further weighting of the resulted figures. Existing improvements are accounted for at cost.

During the year ended 31 December 2005 the Group capitalized borrowing costs in land under construction, including land improvements in the amount of USD 4,535 thousand.

As of 31 December 2005 land under construction with a book value of USD 56,912 thousand was pledged as collateral under the loan received from JSCB ROSBANK (Note 18).

10. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of 31 December 2005 and 2004 consisted of the following:

	31 December 2005 '000 USD	31 December 2004 '000 USD
Receivables on transactions with promissory notes	4,431	-
Other receivables	606	172
Prepaid expenses	422	392
Prepaid current income tax	224	229
Other taxes prepaid	2	258
Total	**5,685**	**1,051**

11. LOANS ISSUED

Loans issued as of 31 December 2005 and 2004 consisted of:

	Interest rate	Currency	31 December 2005 '000 USD	31 December 2004 '000 USD
Bank Tower LLC	3.0%	RUR	2,318	-
Bank Tower LLC	10.0%	RUR	1,350	-
Penati 1	14.3%	RUR	22	-
First London Sales Limited	9.0%	USD	-	3,431
PMD-Service LLC	3.5%	RUR	-	2,728
Velednikovo LLC	3.0%	RUR	-	199
Deviz-2000 LLC	2.0%	RUR	-	154
Stroy Group LLC	from 2.0% to 17.5%	RUR	-	76
Ordinary promissory notes of "Color avto-2000" LLC	0%	RUR	-	1,892
Total			**3,690**	**8,480**

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2005 and 2004 consisted of the following:

	31 December 2005 '000 USD	31 December 2004 '000 USD
Cash in banks, in RUR	16,728	17,701
Cash in banks, in other currencies	6,474	10,193
Petty cash	9	6
Short-term bank deposits	32,217	30,458
Total	**55,428**	**58,358**

13. SHARE CAPITAL

As of 31 December 2005 and 2004 the Group had 3,590,000 ordinary shares issued and fully paid with a par value of 1,000 RUR each.

The extraordinary general meeting of shareholders held on 14 November 2005 approved capital increase, whereby up to 1,285,488 new ordinary shares each with a nominal value of 1,000 RUR should be issued through an open subscription. The offering price is equal to the Rouble equivalent of USD 70 per share at the exchange rate of the Central Bank of the Russian Federation as of the date of placement. Shareholders were granted pre-emptive rights of purchase, pro rate to their existing shareholdings (Note 30).

In June 2004 the Group declared dividends for the year ended 31 December 2003 amounting to USD 1,864 thousand, which were paid in July 2004.

14. ADDITIONAL PAID-IN-CAPITAL

Additional paid-in-capital as of 31 December 2005 and 2004 consisted of the following:

	31 December 2005 '000 USD	31 December 2004 '000 USD
Premium arising on issue of shares	22,876	22,876
Less: Underwriting fees	(3,349)	(3,349)
Less: Legal and consulting fees	(503)	(503)
Total	**19,024**	**19,024**

15. LAND UNDER CONSTRUCTION REVALUATION RESERVE

Land under construction revaluation reserve as of 31 December 2005 and 2004 consisted of the following:

	31 December 2005 '000 USD	31 December 2004 '000 USD
At 31 December 2004	23,247	9,426
Revaluation surplus on land	64,845	18,457
Deferred tax liabilities arising on revaluation of land (Note 17)	(16,082)	(4,430)
Release of revaluation on assets disposed off	-	(271)
Deferred tax liability on revaluation of assets disposed off	-	65
Increase in minority interest due to change in investment in subsidiary (Note 32)	(2,642)	-
At 31 December 2005	**69,368**	**23,247**

16. MINORITY INTEREST

	'000 USD
At 31 December 2004	-
Minority interest in net loss from subsidiary for the period	(18)
Increase in minority interest due to change in investment in subsidiary	5,284
Minority interest in subsidiary's revaluation surplus for the period	635
At 31 December 2005	**5,901**

17. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2005 and 2004, the Russian's tax rate for corporations' for profits other than on state securities was 24%. The tax rate for interest income on state securities was 15 % for Federal taxes.

The Group is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime for certain income under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2005 and 2004 comprises:

	31 December 2005 '000 USD	31 December 2004 '000 USD
Deferred assets:		
Loss carry forward	430	-
Property, plant and equipment	2,674	3,685
Other payables and accrued expenses	1,773	586
Other receivables and prepaid expenses	8,966	-
Effect of foreign currency translation of other assets	495	3,495
Total deferred assets	**14,338**	**7,766**

	31 December 2005 '000 USD	31 December 2004 '000 USD
Deferred liabilities:		
Land under construction and land held for resale	187,465	30,859
Payable to customers under construction contracts	34,455	17,062
Other receivables and prepaid expenses	2,098	-
Investment property	29,566	11,230
Property, plant and equipment	4,719	-
Effect of foreign currency translation of other assets	576	-
Total deferred liabilities	**258,879**	**59,151**

	31 December 2005 '000 USD	31 December 2004 '000 USD
Net deferred liabilities	(244,541)	(51,385)
Deferred income tax liability (at tax rate of 24%)	(59,276)	(12,801)
Deferred income tax asset (at tax rate of 24%)	586	469
Net deferred income tax liability	**(58,690)**	**(12,332)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
Profit before income taxes	**21,560**	**20,522**
Statutory tax rate	24%	24%
Theoretical tax at the statutory tax rate of	5,174	4,925
Tax on dividends from Cyprus subsidiary	-	1,800
Tax on income from sale of interest in Russian subsidiary to Cyprus subsidiary	1,571	-
Tax effect of other permanent differences	739	(195)
Income tax expense	**7,484**	**6,530**
Income tax expense		
Deferred income tax expense	5,936	4,535
Current income tax expense	1,548	1,995
Income tax expense	**7,484**	**6,530**

Deferred income tax liabilities	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
At the beginning of the period	12,801	3,836
Decrease in deferred tax liability charged directly to retained earnings	(1,571)	-
Increase in the deferred income tax expense charged to income statement	6,053	4,535
Increase in the deferred income tax expense charged to equity (Note 15)	16,082	4,430
Acqusition of subsidiaries (Note 31)	25,916	-
Disposal of subsidiary (Note 32)	(5)	-
At the end of the period	**59,276**	**12,801**

Deferred income tax assets	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
At the beginning of the period	469	-
Acquisition of subsidiary	-	469
Increase in deferred income tax assets charged to income statement	117	-
At the end of the period	**586**	**469**

18. LONG-TERM LOANS

Long-term loans as of 31 December 2005 and 2004 consisted of the following:

	Currency	Interest rate	31 December 2005 '000 USD	31 December 2004 '000 USD
JSCB ROSBANK	USD	11%	50,000	-
JSCB Savings bank of the Russian Federation	USD	11%	23,500	25,000
ING Bank N.V.	USD	9.125%	150,000	-
Prepaid credit account maintenance fees	USD		(2,098)	-
Accor Limited Company	EUR	9%	-	1,321
Total			**221,402**	**26,321**

As of 31 December 2005 the shares of JSC Hotel Novoslobodskaya and building with a book value of USD 36,675 thousand have been pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 6).

As of 31 December 2005 100% stake in Martemianovo LLC and land under construction with a book value of USD 56,912 thousand was pledged as collateral under the loan received from JSCB ROSBANK (Note 9).

Long-term loan as of 31 December 2005 and 2004 are repayable as follows:

	31 December 2005 '000 USD	31 December 2004 '000 USD
Within one year	1,500	528
In the second year	150,652	2,028
In the third to fifth years inclusive	70,750	24,293
After five years	-	-
Less: current portion of long-term loans (Note 19)	(1,500)	(528)
Total	**221,402**	**26,321**

On 15 January 2005 the Group has fully repaid the loan from Accor Limited Company before maturity.

19. SHORT-TERM LOANS AND ACCRUED INTEREST

Short-term loans and accrued interest as of 31 December 2005 and 2004 consisted of the following:

	Interest rate	31 December 2005 '000 USD	31 December 2004 '000 USD
Current portion of long-term loan from JSCB Savings bank of the Russian Federation (Note 18)	11%	1,500	-
Current portion of long-term loan from Accor Limited Company (Note 18)	9%	-	528
Other loans		743	-
Accrued interest on long-term and short-term loans		2,062	46
Prepaid interest on loans		(891)	-
Total		**3,414**	**574**

20. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as of 31 December 2005 and 2004 consisted of the following:

	31 December 2005 '000 USD	31 December 2004 '000 USD
Accounts payable on acquisition of subsidiaries (Note 31)	11,057	-
Trade payables to suppliers and service providers	3,696	8,861
Advances received	1,277	1,365
Accounts payable to employees	1,543	5
Other accounts payable and accrued expenses	218	370
Total	**17,791**	**10,601**

21. REVENUE UNDER CONSTRUCTION CONTRACTS

Revenue under construction contracts for the years ended 31 December 2005 and 2004 consisted of the following:

	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
Revenue under contracts for construction of cottages	56,727	32,344
Revenue under contracts for construction of infrastructure and others	10,983	-
Total	**67,710**	**32,344**

22. COST OF CONSTRUCTION CONTRACTS

Cost of construction contracts for the years ended 31 December 2005 and 2004 consisted of the following:

	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
Cost of contracts for construction of cottages (Note 9)	31,334	17,401
Cost of contracts for construction of infrastructure and others	10,981	-
Total	**42,315**	**17,401**

23. COST OF RENTAL SERVICES

Cost of rental services for the years ended 31 December 2005 and 2004 consisted of the following:

	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
Property tax	255	387
Public utilities	73	197
Rent expense	54	76
Repairs and maintenance	46	267
Other expenses	9	-
Total	**437**	**927**

24. COST OF HOTEL SERVICES

Cost of hotel services for the year ended 31 December 2005 consisted of the following:

	Year ended 31 December 2005 '000 USD
Payroll	2,516
Management fees	1,698
Materials	1,342
Depreciation	1,186
Repairs and maintenance	892
Property tax	844
Payroll taxes	475
Commissions	344
Bank fees for credit cards processing	271
Laundry expenses	238
Professional services	182
Communication and TV expenses	162
Insurance	138
Security expenses	79
Decoration expenses	31
Others	967
Total	**11,365**

25. COST OF OTHER SERVICES

Cost of other services for the year ended 31 December 2005 consisted of the following:

	Year ended 31 December 2005 '000 USD
Professional services	3,034
Commission on received bank guarantee	216
Payroll	175
Repairs and maintenance	116
Security expenses	69
Rent expense	37
Property tax	21
Payroll taxes	19
Depreciation of fixed assets	4
Insurance	1
Other expenses	165
Total	**3,857**

26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for years ended 31 December 2005 and 2004 consisted of the following:

	Year ended 31 December 2005 '000 USD	**Year ended 31 December 2004 '000 USD**
Payroll	4,971	810
Brokerage fees	1,615	1,332
Audit and other consulting services	978	404
Other operating taxes	970	16
Advertising	668	390
Depreciation of fixed assets	610	40
Payroll taxes	376	108
Insurance	318	55
Property tax	286	20
Bank charges	193	24
Security expenses	192	75
Rent expense	92	10
Repairs and maintenance	57	19
Public utilities	52	16
Management fees	30	1,661
Technical supervision	-	214
Other expenses	1,469	321
Total	**12,877**	**5,515**

27. INTEREST INCOME

Interest income for the years ended 31 December 2005 and 2004 consisted of the following:

	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
Interest on bank deposits	697	104
Interest on loans issued	612	260
Total	**1,309**	**364**

28. INTEREST EXPENSE

Interest expense for the years ended 31 December 2005 and 31 December 2004 consisted of the following:

	Year ended 31 December 2005 '000 USD	Year ended 31 December 2004 '000 USD
Interest on bank loans	9,523	3,420
Cost of maintenance of credit accounts	191	-
Interest on other loans	49	-
Total interest expense	9,763	3,420
Less: amounts included in the cost of qualifying assets	(5,069)	-
Total	**4,694**	**3,420**

29. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Basic			Diluted		
	Weighted average number of shares outstanding during the period	**Net profit attributable to shareholders of the parent company ('000 USD)**	**Earnings per share (in USD)**	**Weighted average number of shares outstanding during the period**	**Net profit attributable to shareholders of the parent company ('000 USD)**	**Earnings per share (in USD)**
Year ended 31 December 2005	3,590,000	14,094	3.93	3,590,000	14,094	3.93
Year ended 31 December 2004	2,107,937	13,992	6.64	2,107,937	13,992	6.64

30. SUBSEQUENT EVENTS

On 26 January 2006 the Company registered Prospectus of Additional Issue of Shares with the Federal Financial Markets Services. On 24 March 2006 the Company summarized the results of pre-emptive rights participation. The Company placed 1,251,424 ordinary shares through existing shareholders. The remaining 34,064 shares have been placed through an open subscription.

31. ACQUISITION OF SUBSIDIARIES

In April 2005 the Group acquired 100% ownership interest in Stroy Group LLC for the total price of USD 12.6 million, which was paid in cash. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

In June 2005 the Group acquired 100% ownership interest in Proekt Capital LLC, Stroy Servis Group LLC and Martemianovo LLC for the total price of USD 29.8 million, USD 24 million of which was paid in cash and the remaining portion is payable within 8 months. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

In August 2005 the Group acquired 100% ownership interest in Amalia LLC for the total price of USD 2.1 million, which was paid in cash. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

In December 2005 the Group acquired 100% ownership interest in Krasnaya Gorka LLC for the total price of USD 9 million, which was paid in cash. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

In December 2005 the Group acquired 100% ownership interest in Belyi Parus LLC for the total price of USD 5.3 million, USD 0.1 million of which was paid in cash and the remaining portion was fully repaid in January 2006. As of 31 December 2005 100% stake in Belyi Parus LLC was pledged as collateral under accounts payable on acquisition of the subsidiary. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

In December 2005 the Group acquired 100% ownership interest in INNOMOTORS LLC for the total price of USD 8.3 million, which was paid in cash. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

In December 2005 the Group acquired 100% ownership interest in Invest Nedvizhimost LLC and Proekt Stroy LLC and Lukino LLC for the total price of USD 39.7 million, which was paid in cash. No goodwill was recognized on this transaction, as consideration given was equal to fair value of the identifiable assets and liabilities at the date of the acquisition.

At the dates of the acquisition the aggregate data for all above-mentioned entities is as follows:

	'000 USD
Net assets acquired:	
Investment property (Note 8)	21,824
Land under construction, including land improvements (Note 9)	113,212
Property, plant and equipment, net (Note 6)	25
Capital advances	371
Advances paid	54
Value added tax recoverable	23
Trade accounts receivable	22
Other receivables and prepaid expenses	4,694
Cash and cash equivalents	431
Short-term loans and accrued interest	(7,385)
Trade and other accounts payable	(490)
Tax liabilities, other than income tax liabilities	(47)
Deferred tax liabilities (Note 17)	(25,916)
Total	**106,818**
Consideration given:	
Satisfied by cash	(95,761)
Accounts payable on acquisition of subsidiaries (Note 20)	(11,057)
Total	**106,818**
Net cash outflow arising on acquisition:	
Cash consideration	(95,761)
Cash and cash equivalents acquired	431
	(95,330)

32. DISPOSAL OF SUBSIDIARIES

In August 2005 the Group sold 100% ownership interest in Bank Tower LLC. As a result of operation the Group decreased the share in the charter capital of Sakharova Business Plaza LLC from 100% to 60%.

At the date of the disposal:

	'000 USD
Negative net assets disposed:	
Land under construction, including land improvements (Note 9)	578
Value added tax receivable	77
Other receivables and prepaid expenses	2,991
Cash and cash equivalents	51
Long-term loans	(3,812)
Short-term loans	(2,301)
Trade accounts payable	(75)
Deferred tax liabilities (Note 17)	(5)
	(2,496)
Minority interest in revaluation reserve of subsidiary (Note 15)	2,642
Gain on disposal of subsidiaries	30
Satisfied by cash	176
Net cash inflow arising on disposal:	
Cash consideration	176
Cash and cash equivalents disposed	(51)
	125

33. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates – enterprises in which the Group has significant influence and which are neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;

(f) Parties with joint control over the Group;

(g) Joint ventures in which the Group is a venture; and

(h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties as of 31 December 2005 and 2004:

	31 December 2005		**31 December 2004**	
'000 USD	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Long-term loans (entities with joint control or significant influence over the entity)	50,000	221,402	-	26,321
Long-term accounts payable (entities with joint control or significant influence over the entity)	8,840	8,840	-	-
Trade accounts payable (entities with joint control or significant influence over the entity)	-	3,696	5,215	8,861
Advances received (entities with joint control or significant influence over the entity)	268	1,277	-	1,365
Accounts payable to employees (key management personnel of the entity)	803	1,543	-	5
Payable to customers under construction contracts (key management personnel of the entity or its parent)	381	29,854	608	26,586
Advances received from customers for land plots (key management personnel of the entity or its parent)	2,806	6,172	-	-
Receivable from customers under construction contracts (key management personnel of the entity or its parent)	-	21,160	419	3,854
Trade accounts receivable (entities with joint control or significant influence over the entity)	73	1,116	-	661
Prepaid interest (entities with joint control or significant influence over the entity)	891	891	-	-
Advances paid (entities with joint control or significant influence over the entity)	-	7,725	48	4,902
Other receivables and prepaid expenses (entities with joint control or significant influence over the entity)	78	5,685	-	1,051
Loans issued (entities with joint control or significant influence over the entity)	3,668	3,690	-	8,480
Cash and cash equivalents (entities with joint control or significant influence over the entity)	53,393	55,428	44,143	58,358

Included in the consolidated income statement for the year ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2005		Year ended 31 December 2004	
'000 USD	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Revenue under construction contracts (key management personnel of the entity or its parent)	568	67,710	934	32,344
Revenue on rendering other services (entities with joint control or significant influence over the entity)	260	5,255	-	500
Management fees (entities with joint control or significant influence over the entity)	30	30	1,661	1,661
Public utilities (entities with joint control or significant influence over the entity)	-	52	248	248
Commission on received bank guarantee (entities with joint control or significant influence over the entity)	216	216	-	-
Bank charges (entities with joint control or significant influence over the entity)	85	193	9	24
Interest expense (entities with joint control or significant influence over the entity)	851	4,694	3,420	3,420
Interest income (entities with joint control or significant influence over the entity)	29	1,309	-	364
Technical supervision (entities with joint control or significant influence over the entity)	-	-	214	214
Other expenses (entities with joint control or significant influence over the entity)	92	484	-	643
Key management personnel compensation:				
Payroll and related taxes	2,815	8,532	115	226
Insurance	46	457	-	11
	2,861	8,989	115	237

During the year ended 31 December 2005 the Group received the loans from related parties amounting to USD 78,223 thousand. During the year ended 31 December 2005 the Group repaid the loan from related party amounting to USD 25,000 thousand. During the year ended 31 December 2005 the Group accrued loan interest in the amount of USD 4,584 thousand from which USD 851 thousand are recorded as interest expense and USD 3,733 thousand are capitalized in cost of long-term assets. During the year ended 31 December 2005 the Group paid interest in the amount of USD 5,475 thousand.

During the year ended 31 December 2005 the Group obtained an irrevocable bank guarantee to secure liabilities under the government contract (Note 34) from a related bank amounting to RUR 279,855 thousand (USD 9,723 thousand at the exchange rate of the Central Bank of the Russian Federation as of 31 December 2005). During the year ended 31 December 2005 the Group paid bank commission in the amount of USD 294 thousand.

During the year ended 31 December 2004 the Group received the loan from a related bank amounting to USD 5,000 thousand and repaid loans of USD 30,000 thousand.

During the year ended 31 December 2005 the Group sold 100% ownership interest in Bank Tower LLC to entities with joint control for the amount of USD 176 thousand, which was paid in cash, and received gain in the amount of USD 30 thousand .

34. BUSINESS SEGMENTS

Financial information relating to the Group's consolidated segments are as follows for the years ended 31 December 2005 and 2004:

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Elliminations	Group's total Year ended 31 December 2005 '000 USD
REVENUE							
External sales	68,068	-	2,896	16,831	5,333	-	93,128
Inter-segment sales	-	-	429	31	1,379	(1,839)	-
Total revenue	68,068	-	3,325	16,862	6,712	(1,839)	93,128
RESULT							
Segment operating profit	20,091	-	2,459	5,466	1,339	-	29,355
Unallocated expenses							(7,514)
Operating profit							21,841
Segment profit before income tax	21,721	-	4,363	3,716	1,339	-	31,139
Unallocated expenses, net							(9,579)
Profit before income tax							21,560

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Elliminations	Group's total Year ended 31 December 2004 '000 USD
REVENUE							
External sales	33,265	-	3,162	-	313	-	36,740
Inter-segment sales	-	-	340	-	944	(1,284)	-
Total revenue	33,265	-	3,502	-	1,257	(1,284)	36,740
RESULT							
Segment operating profit	12,419	-	2,235	-	115	-	14,769
Unallocated expenses							(2,606)
Operating profit							12,163
Segment profit before income tax and changes in accounting policy	12,419	-	4,735	-	115	-	17,269
Unallocated expenses, net							(5,477)
Profit before income tax and change in accounting policy							11,792

Financial information relating to the Group's consolidated segments are as follows as of 31 December 2005 and 2004:

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Group's total 31 December 2005 '000 USD
OTHER INFORMATION						
Segment assets	369,501	81,670	32,903	40,503	1,085	525,662
Unallocated assets						78,122
Eliminations						(5,022)
Total assets						598,762
Segment liabilities	212,046	47,717	6,531	23,776	2,003	292,073
Unallocated liabilities						61,474
Eliminations						(5,022)
Total liabilities						348,525
Segment capital additions	194,565	36,123	11,465	109	-	242,262
Unallocated capital additions						24
Capital additions						242,286
Segment depreciation expense	291	-	-	1,186	-	1,477
Unallocated depreciation expense						323
Depreciation expense						1,800

	Residential property	Commer-cial property develop-ment	Commer-cial property	Hotel operations	Others	Group's total 31 December 2004 '000 USD
OTHER INFORMATION						
Segment assets	111,918	22,646	28,049	53,035	803	216,451
Unallocated assets						67,279
Eliminations						(23,423)
Total assets						260,307
Segment liabilities	49,623	6,642	9,251	27,774	342	93,632
Unallocated liabilities						7,548
Eliminations						(23,423)
Total liabilities						77,757
Capital additions	16,018	14,980	-	37,994	112	69,104
Unallocated capital additions						271
Capital additions						69,375
Depreciation expense	-	-	-	-	-	-
Unallocated depreciation expense						40
Depreciation expense						40

35. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of 31 December 2005 material commitments of the Group for capital expenditures outstanding under concluded contracts approximated USD 130 mln. The Group has early termination rights for all concluded capital construction contracts.

Operating leases – The Group's future minimum rental payments under non-cancellable operating leases of the land parcel for office building in effect as of 31 December 2005 and 2004 are presented in the table below.

	31 December 2005 '000 USD	31 December 2004 '000 USD
Not later than 1 year	257	210
Later than 1 year but not later than 5 years	318	330
Later than 5 years	94	165
Total operating lease	**669**	**705**

Liabilities under long-term contracts – In May 2005 the Group won the tender for participation as a general designer (vendor) under the government contract for the feasibility study of investments into construction of the Central Ring Road of the Moscow region. The tender was organized by the Federal state enterprise "Directorate of the state customer for the realization of the subprogram "Highways" of the federal target program "Modernization of the Russian Transport System (2002-2010 years)" of the Federal Highway Agency. For participation in the tender and further realization of this project an international consortium was organized. The government contract with the Federal state enterprise "Highways of Russia" of the Federal Highway Agency of the Ministry of Transport of the Russian Federation for the feasibility study of investments into construction of the Central Ring Road of the Moscow region was signed by IR Development LLC on behalf of the international consortium on 14 June 2005. Total contract amount comprises RUR 279,855 thousand (USD 9,723 thousand at the exchange rate of the Central Bank of the Russian Federation as of 31 December 2005), including VAT.

To secure the principal liability of IR Development LLC under the government contract on 15 June 2005 the Group obtained an irrevocable bank guarantee from JSCB ROSBANK amounting to RUR 279,855 thousand (USD 9,723 thousand at the exchange rate of the Central Bank of the Russian Federation as of 31 December 2005). The guarantee is issued until 15 August 2006. Quarterly bank commission comprises 1% of the guarantee's amount. Pavlovo LLC serves as a counter guarantor under the bank guarantee.

Share options program – In August 2005 the Board of Directors approved the "Regulation on compensation upon operating results of Open Investments JSC" (the "Regulation"). The Regulation establishes the rules for determination of the annual bonuses accrual and payment for the Group's employees based on operating results for the year, and principals of shares purchase option granted to the Group's employees as a form of additional incentive. Under the share option program of 2006-2008 the Group will grant to the Group's employees an annual opportunity to purchase of ordinary shares at a fixed price equal to USD 49.75 per share (the "Share options"). The quantity of share options that can be purchased by participants of the share option program during 2006-2008 totals 133,000 per each year. As of the date of issuance of these consolidated financial statements Share options program was not implemented.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxes – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may by assessed additional taxes, penalties and interest. While the Group believes it has complied with all applicable regulations and requirements, the regulations are not always clearly written, it is difficult to predict future interpretations by regulatory authorities, and outcomes of such interpretations. The management of the Group considers the probability of any sanctions being undertaken by local authorities against the Group is remote, and believes that no fines or penalties will become payable. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits from the Russian Federation in accordance with the laws and regulations of the country. As of 31 December 2005 and 2004, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Group's principal business activities are within the Russian Federation. Laws and regulations affecting business environment in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

36. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to operating risk, credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty/customer, or groups of customers. Prior to entering into material contracts the Group undertakes due diligence procedure, which include checking the financial condition and creditworthiness of the counterparty, its experience, expertise and reputation in the subject area of co-operation. The Group also obtains a legal opinion from its in-house or from independent legal counsel regarding the validity and enforceability of contracts and other material documentation in connection with the subject transaction. The Group's aggregate credit exposure to particular counterparty/customer, or groups of customers once established by the Investment Committee are subject to quarterly review and approval by the Investment Committee.

The Group's counterparties/customers are mainly contractors, buyers/sellers of property, tenants and banks. For each group the Group has developed additional procedures to mitigate credit risk.

Contractors: The Group seeks additional credit risk mitigation instruments, including safety deposits, completion and performance guarantees, issued by top-rated banks, use of professional advisors, providing quality control and technical supervision.

*Buyers/Sellers of Propert*y: Financial guarantees (Bank guarantees, letters of credit or similar bank instruments) or advance performance of counterparty's obligations are usually required from each potential buyer/seller.

Tenants: The Group carries out due diligence procedure. Contracts with tenants include safety deposit in the amount of lease payments for 1-6 months, which provides sufficient amount to cover the costs and realize planned profit during re-marketing period.

Banks and financial institutions: the Group undertakes due diligence procedure on banks and financial institutions, which are service providers for the Group, to ensure their creditworthiness. The Investment Committee establishes limits for aggregate credit exposure to banks and financial institutions. Such limits are subject to quarterly review. The Group maintains accounts with several banks to ensure flexibility of risk management policy implementation.

Currency risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group minimizes to the extent possible any disproportion between the currencies of its major income and expense items, between its assets and liabilities. The Group at the moment maintains US dollar as the currency for most of its contracts with service providers, tenants, buyers and sellers of property, debt instruments outstanding. If due to the Russian Law any settlement shall be in Russian Roubles, the Group still sets prices and values in US Dollars and performs the settlements in Russian Rouble equivalents, calculated on the basis of US Dollar price or value using the prevailing exchange rate of the Central Bank of the Russian Federation.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

All Group's debt instruments outstanding are fixed rate. The Group plans to remain borrowing at a fixed rate in the future.

Funding (cash flow) risk – Funding (cash flow) risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has established budgeting and cash flow planning procedures to insure it has adequate cash available to meet its payment obligations in due course.

The Management controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the financial markets for current liquidity support and cash flow management.

The Group recognizes the capital intensive nature and modest liquidity of real estate. Therefore the Group uses its best efforts to fund a significant portion of future cash needs thought long-term borrowings, and to maintain high proportion of equity financing. The Group also tries to partially finance the development of its residential projects by receiving advance payments under construction contracts.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS No. 32 “Financial Instruments: Disclosure and Presentation” and IAS 39. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2005 and 2004 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Trade and other accounts receivable – As of 31 December 2005 and 2004 the carrying amount of trade and other accounts receivable is a reasonable estimate of their fair value.

Loans issued – As of 31 December 2005 and 2004 the fair value of loans issued can not be estimated reliably.

Long-term bank loans – As of 31 December 2005 and 2004 the carrying amount of the long-term borrowings from banks is a reasonable estimate of their fair value.

Trade and other accounts payable – As of 31 December 2005 and 2004 the carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.