# JSC OPIN
# and Subsidiaries

**Independent Auditors' Report**

**Consolidated Financial Statements**

for the year ended 31 December 2007

# JSC OPIN AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2007

**INDEX** **Page**

## JSC OPIN AND SUBSIDIARIES

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 ("JSC OPIN") 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 as of 31 December 2007 and the consolidated 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 judgments 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 consolidated 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 the legislation and accounting standards of the Russian Federation and other jurisdictions in which the Group operates;
- 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 2007 were authorized for issue on 28 March 2008 by:

Sergey V. Bachin

General Director of JSC OPIN

Moscow
28 March 2008

Deloitte.

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC OPIN:

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of JSC OPIN and subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2007, and the related consolidated statements of income, changes in equity and cash flows for the year 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

28 March 2008
Moscow

## CONSOLIDATED BALANCE SHEET
## AS OF 31 DECEMBER 2007

| | Notes | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS: | | | |
| Goodwill | 4 | 633 | 633 |
| Intangible assets | 5 | 565 | 122 |
| Property, plant and equipment | 6 | 122,906 | 93,967 |
| Capital advances | 7 | 863,832 | 463,237 |
| Investment property | 8 | 102,656 | 141,049 |
| Investment property under development | 9 | 1,350,810 | 525,903 |
| Value added tax recoverable | | 50,657 | 24,692 |
| Deferred tax assets | 19 | 14,313 | 6,836 |
| | | 2,506,372 | 1,256,439 |
| CURRENT ASSETS: | | | |
| Inventories | 10 | 482,732 | 35,017 |
| Advances paid | | 18,752 | 8,344 |
| Value added tax recoverable | | 2,638 | 3,701 |
| Receivables from customers under construction contracts | 35 | 31,500 | 11,006 |
| Trade accounts receivable | | 2,508 | 1,134 |
| Other receivables and prepaid expenses | 11,35 | 6,367 | 2,878 |
| Loans to third parties | 12 | 20,473 | 23,560 |
| Cash and cash equivalents | 13,35 | 427,092 | 313,400 |
| | | 992,062 | 399,040 |
| **TOTAL ASSETS** | | **3,498,434** | **1,655,479** |
| EQUITY AND LIABILITIES | | | |
| EQUITY: | | | |
| Share capital | 14 | 494,316 | 338,035 |
| Additional paid-in-capital | 15 | 1,472,101 | 713,172 |
| Revaluation reserve | 16 | 612,605 | 113,232 |
| Retained earnings | | 191,028 | 97,282 |
| | | 2,770,050 | 1,261,721 |
| NON-CURRENT LIABILITIES: | | | |
| Deferred income tax liabilities | 19 | 351,340 | 112,212 |
| Long-term finance lease payable | 20 | 12,341 | 10,539 |
| Long-term loans | 21,35 | 92,193 | 45,590 |
| | | 455,874 | 168,341 |
| CURRENT LIABILITIES: | | | |
| Short-term loans and accrued interest | 22 | 103,882 | 154,737 |
| Short-term finance lease payable | 20 | 409 | 285 |
| Trade and other accounts payable | 23 | 37,222 | 12,045 |
| Tax liability, other than income tax | | 760 | 694 |
| Current income tax liability | | 6,611 | 279 |
| Advances received from customers for inventories | 35 | 123,626 | 57,377 |
| | | 272,510 | 225,417 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,498,434** | **1,655,479** |

The notes on pages 9 to 49 form an integral part of these consolidated financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. The independent auditors' report is presented on page 2-3.

## JSC OPIN AND SUBSIDIARIES

### CONSOLIDATED INCOME STATEMENT
### FOR YEAR ENDED 31 DECEMBER 2007

| | Notes | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|---|
| REVENUE | | | |
| Revenue under construction contracts | 24, 35 | 95,370 | 45,490 |
| Land sold | 35 | 39,566 | 11,282 |
| Hotel revenue | | 24,121 | 20,027 |
| Rental income from investment property | | 3,737 | 3,355 |
| Revenue on rendering other services | 35 | 1,862 | 5,435 |
| | | 164,656 | 85,589 |
| COST OF SALES | | | |
| Cost of construction contracts | 25 | (58,442) | (25,035) |
| Cost of land sold | | (29,338) | (9,445) |
| Cost of hotel services | 26 | (13,427) | (12,209) |
| Cost of rental services | 27 | (622) | (569) |
| Cost of other services | 28 | (890) | (4,328) |
| | | (102,719) | (51,586) |
| GROSS PROFIT | | 61,937 | 34,003 |
| Selling, general and administrative expenses | 29, 35 | (36,937) | (19,418) |
| Expense under share based payment program | 15 | (3,140) | (5,015) |
| Interest income | 30, 35 | 27,921 | 14,257 |
| Interest expense | 31, 35 | (10,691) | (11,534) |
| Gain on change in fair value of investment property | 8 | 38,069 | 43,482 |
| Loss on extinguishment of debt | | (640) | - |
| Net gain on foreign currency operations | | 17,099 | 15,334 |
| Other income | | 2,904 | 1,829 |
| Other expenses | | (382) | (1,750) |
| PROFIT BEFORE INCOME TAX | | 96,140 | 71,188 |
| INCOME TAX | 19 | (9,378) | (13,278) |
| NET PROFIT | | **86,762** | **57,910** |
| Attributable to: | | | |
| Shareholders of the parent company | | 86,762 | 58,108 |
| Minority interest | 17 | - | (198) |
| | | **86,762** | **57,910** |
| EARNINGS PER SHARE: | | | |
| Basic, for profit attributable to shareholders of the parent company, US Dollars | 32 | 7.70 | 10.07 |
| Diluted, for profit attributable to shareholders of the parent company, US Dollars | 32 | 7.56 | 9.81 |

The notes on pages 9 to 49 form an integral part of these consolidated financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. The independent auditors' report is presented on page 2-3.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

| '000 USD | Share capital | Additional paid-in-capital | Revaluation reserve | Retained earnings | Equity attributable to the shareholders of the parent company | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| Balance as of 31 December 2005 | **119,797** | **19,024** | **69,368** | **36,147** | **244,336** | **5,901** | **250,237** |
| Net profit | - | - | - | 58,108 | 58,108 | (198) | 57,910 |
| Revaluation surplus (Note 16, Note 17) | - | - | 61,350 | - | 61,350 | 6,562 | 67,912 |
| Release of revaluation surplus on disposed assets (Note 16) | - | - | (3,027) | 3,027 | - | - | - |
| Issue of shares | 232,889 | 731,823 | - | - | 964,712 | - | 964,712 |
| Purchase of treasury shares | (14,651) | (42,690) | - | - | (57,341) | - | (57,341) |
| Expense under share based payment program (Note 18) | - | 5,015 | - | - | 5,015 | - | 5,015 |
| Change in investment in subsidiary | - | - | (14,459) | - | (14,459) | (12,265) | (26,724) |
| **Balance as of 31 December 2006** | **338,035** | **713,172** | **113,232** | **97,282** | **1,261,721** | **-** | **1,261,721** |
| Net profit | - | - | - | 86,762 | 86,762 | - | 86,762 |
| Revaluation surplus (Note 16) | - | - | 504,852 | - | 504,852 | - | 504,852 |
| Release of revaluation surplus on disposed assets (Note 16) | - | - | (5,479) | 5,479 | - | - | - |
| Issue of shares (Note 14, Note 15) | 151,446 | 754,006 | - | - | 905,452 | - | 905,452 |
| Decrease in deferred tax liability due to change in tax base of assets (Note 19) | - | - | - | 1,505 | 1,505 | - | 1,505 |
| Sale of treasury shares (Note 14, Note 15) | 4,835 | 1,783 | - | - | 6,618 | - | 6,618 |
| Expense under share based payment program (Note 18) | - | 3,140 | - | - | 3,140 | - | 3,140 |
| **Balance as of 31 December 2007** | **494,316** | **1,472,101** | **612,605** | **191,028** | **2,770,050** | **-** | **2,770,050** |

The notes on pages 9 to 49 form an integral part of these consolidated financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. The independent auditors' report is presented on page 2-3.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

| | Notes | Year ended 31 December 2007 000'USD | Year ended 31 December 2006 000'USD |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Profit before income tax | | 96,140 | 71,188 |
| Adjustments for: | | | |
| Depreciation and amortization expense | | 3,136 | 2,412 |
| Gain on property, plant and equipment disposal | | (19) | (6) |
| Gain on investment property disposal | | (2,712) | (1,550) |
| Interest income | | (27,921) | (14,257) |
| Interest expense | | 10,691 | 11,534 |
| Expense under share based payment program | | 3,140 | 5,015 |
| Gain on change in fair value of investment property | | (38,069) | (43,482) |
| **Operating cash flow before movements in working capital** | | **44,386** | **30,854** |
| Decrease in land held for sale | | 29,338 | 9,445 |
| Increase in residential buildings under development | | (102,788) | - |
| Increase in other inventories | | (390) | (243) |
| (Increase) / decrease in receivables from customers under construction contracts | | (20,494) | 10,154 |
| Decrease in other receivables and prepaid expenses | | 403 | 3,459 |
| Increase in trade accounts receivable | | (1,369) | (18) |
| Increase in value added tax recoverable | | (24,884) | (14,306) |
| Increase in advances paid | | (10,408) | (619) |
| Increase in long-term accounts payable | | - | 2,932 |
| Increase in trade and other accounts payable | | 2,719 | 2,484 |
| Increase in advances received from customers for residential buildings under development | | 55,719 | 16,826 |
| Increase in advances received from customers for land plots | | 10,530 | 4,525 |
| Increase/(decrease) in tax liability | | 34 | (253) |
| Cash (used in) / provided by operations | | (17,204) | 65,240 |
| Interest paid | | (11,645) | (12,699) |
| Income tax paid | | (15,188) | (7,920) |
| **Net cash (used in) / provided by operating activities** | | **(44,037)** | **44,621** |
| INVESTING ACTIVITIES: | | | |
| Decrease of accounts payable on acquisition of subsidiaries | | - | (11,057) |
| Acquisition of subsidiaries, net of cash acquired | 34 | (1,466) | (109,409) |
| Loans issued | | (772) | (30,095) |
| Loans repaid | | 6,466 | 5,070 |
| Interest received | | 16,320 | 7,910 |
| Proceeds from sale of investment property | | 7,403 | 3,350 |
| Purchase of investment property | | (1,039) | (1,222) |
| Proceeds from sale of property, plant and equipment | | 156 | 21 |
| Purchase of property, plant and equipment and other non-current assets | | (686,747) | (432,349) |
| Purchase of land and property under development | | (87,742) | (99,731) |
| **Net cash used in investing activities** | | **(747,421)** | **(667,512)** |

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | Notes | Year ended 31 December 2007 000'USD | Year ended 31 December 2006 000'USD |
|---|---|---|---|
| FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of shares | | 912,070 | 961,270 |
| Release of cash reserved at banks under currency control regulation | | - | 3,005 |
| Reduction of finance lease liability | | (348) | (83) |
| Purchase of treasury shares | | - | (57,341) |
| Loans received | | 150,000 | 75,000 |
| Repayment of loans | | (155,290) | (102,266) |
| **Net cash from financing activities** | | **906,432** | **879,585** |
| EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | | (1,282) | 1,278 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 113,692 | 257,972 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 13 | 313,400 | 55,428 |
| CASH AND CASH EQUIVALENTS, end of the period | 13 | **427,092** | **313,400** |

Interest expense capitalized by the Group during the year ended 31 December 2007 amounted to USD 10,046 thousand. Capitalized interest in the amount of USD 537 thousand was unpaid as of 31 December 2007.

Interest expense capitalized by the Group during the year ended 31 December 2006 amounted to USD 13,350 thousand. Capitalized interest in the amount of USD 1,658 thousand was unpaid as of 31 December 2006.

During the year ended 31 December 2007 the Group increased the cost of property, plant and equipment acquired under finance lease by USD 1,321 thousand due to changes in the lease payments.

Property, plant and equipment acquired under finance lease during the year ended 31 December 2006 amounted to USD 10,696 thousand.

The notes on pages 9 to 49 form an integral part of these consolidated financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. The independent auditors' report is presented on page 2-3.

## 1. NATURE OF THE BUSINESS

JSC OPIN (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 located in 23 Novoslobodskaya str., Moscow, 127055, Russian Federation.

The Company is the parent company of a group of entities consolidated within these financial statements (the "Group").

The principal activities and countries of incorporation of the entities of the Group as of 31 December 2007 and 2006 are as follows:

| Operating entity | Project | Principal activity | % held as of 31 December 2007 | % held as of 31 December 2006 | Country of incorpo-ration |
|---|---|---|---|---|---|
| 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 | Domnikov Class A Business Centre | Land lease holding company. Investing in, developing, managing and disposing Sakharov Business Plaza project assets | 100% | 100% | Russia |
| Bank Tower LLC | Domnikov Class A Business Centre | Investor and future owner of a part of Sakharov Business Plaza | 100% | 100% | Russia |
| Sakharov Office Park LLC | Domnikov Class A Business Centre | Investor and future owner of a part of Sakharov Business Plaza | 100% | 100% | Russia |

| Operating entity | Project | Principal activity | % held as of 31 December 2007 | % held as of 31 December 2006 | Country of incorpo-ration |
|---|---|---|---|---|---|
| Investproject Group LLC | Class A Office Center | Investing in, developing, managing and disposing of a Class A Office Center's assets | 100% | 100% | Russia |
| 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 projects assets | 100% | 100% | Russia |
| Invest Group LLC | Group's projects | Investing in, developing, managing and disposing of future projects assets | 100% | 100% | Russia |
| OI Management Company LLC | Group's projects | Investing in, developing, managing and disposing of future projects 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 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% | 100% | Russia |
| Proekt Capital LLC | Group's project | Investing in, developing, managing and disposing projects assets | 100% | 100% | Russia |
| Stroy Servis Group LLC | Group's project | Investing in, developing, managing and disposing projects assets | - | 100% | Russia |
| Martemianovo LLC | Martemianovo | Investing in, developing, managing and disposing Martemianovo project assets | 100% | 100% | Russia |

| Operating entity | Project | Principal activity | % held as of 31 December 2007 | % held as of 31 December 2006 | Country of incorpo-ration |
|---|---|---|---|---|---|
| Amalia LLC | Pavlovo II | Investing in, developing, managing and disposing Pavlovo II project assets | 100% | 100% | Russia |
| OPIN Plaza LLC | OPIN Plaza | Investing in, developing, managing and disposing of a Class A Office Center's assets | 100% | 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% | 100% | Russia |
| Invest Nedvizhimost LLC | Group's project | Investing in, developing, managing and disposing projects assets | 100% | 100% | Russia |
| Lukino LLC | Lukino | Investing in, developing, managing and disposing Lukino project assets | 100% | 100% | Russia |
| Proekt Story LLC | Group's project | Investing in, developing, managing and disposing projects assets | 100% | 100% | Russia |
| CP Martemianovo LLC | Martemianovo | Investing in, developing, managing and disposing Martemianovo project assets | 100% | 100% | Russia |
| Stroy Park LLC | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | 100% | Russia |
| Onigomati Investment Limited | Group's project | Realisation of the employee share based payments program | 100% | 100% | Cyprus |
| Eko-Center LLC | Gorki-10 | Investing in, developing, managing and disposing Gorki-10 project assets | 100% | 100% | Russia |
| Lukino-Invest LLC | Lukino | Investing in, developing, managing and disposing Lukino project assets | 100% | 100% | Russia |
| Novorizhskiy LLC | Lukino | Investing in, developing, managing and disposing Lukino project assets | 100% | 100% | Russia |
| Capital Industry LLC | Group's project | Investing in, developing, managing and disposing projects assets | 100% | 100% | Russia |
| Eko-Polis LLC | Group's project | Investing in, developing, managing and disposing projects assets | 100% | 100% | Russia |

| Operating entity | Project | Principal activity | % held as of 31 December 2007 | % held as of 31 December 2006 | Country of incorpo-ration |
|---|---|---|---|---|---|
| Instroy LLC | Pavlovo II | Investing in, developing, managing and disposing Pavlovo II project assets | 100% | 100% | Russia |
| Istok LLC | Large Pestovo | Investing in, developing, managing and disposing Large Pestovo project assets | 100% | 100% | Russia |
| ExpoDom – Podmoskovye LLC | Group's real property | Providing property management and maintenance services | 100% | 100% | Russia |
| Zemelnyi Capital LLC | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | 100% | Russia |
| Express LLC | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | 100% | Russia |
| Regional development LLC | Group's project in Tver region | Investing in, developing, managing and disposing of future project Group's assets in Tver region | 100% | - | Russia |
| Capital Service LLC | Group's project in Tver region | Investing in, developing, managing and disposing of future project Group's assets in Tver region | 100% | - | Russia |
| Invest Polis LLC | Group's project in Tver region | Investing in, developing, managing and disposing of future project Group's assets in Tver region | 100% | - | Russia |
| Extern LLC | Sochi Hotel and Residential Complex | Investing in, developing, managing and disposing Sochi Hotel and Residential Complex assets | 100% | - | Russia |
| Agro Service LLC | Group's project in Tver region | Investing in, developing, managing and disposing of future project Group's assets in Tver region | 100% | - | Russia |
| Agro Group LLC | Group's project in Tver region | Investing in, developing, managing and disposing of future project Group's assets in Tver region | 100% | - | Russia |
| Invest Service LLC | Group's project in Tver region | Investing in, developing, managing and disposing of future project Group's assets in Tver region | 100% | - | Russia |
| Agrosistema LLC | Large Pestovo | Investing in, developing, managing and disposing Large Pestovo project assets | 100% | - | Russia |

| Operating entity | Project | Principal activity | % held as of 31 December 2007 | % held as of 31 December 2006 | Country of incorpo-ration |
|---|---|---|---|---|---|
| Selskie zori LLC | Large Pestovo | Investing in, developing, managing and disposing Large Pestovo project assets | 100% | - | Russia |
| Stroy Progress LLC | Large Pestovo | Investing in, developing, managing and disposing Large Pestovo project assets | 100% | - | Russia |
| OPIN-Konakovo LLC | Group's project | Developing and managing of project assets in Tver region | 100% | - | Russia |
| OPIN-Uglich LLC | Group's project | Developing and managing of project assets in Yaroslavl region | 100% | - | Russia |
| OPIN-Koprino LLC | Group's project | Developing and managing of project assets in Yaroslavl region | 100% | - | Russia |
| OPIN-Development LLC | Group's project | Developing and managing of project assets in Moscow region | 100% | - | Russia |
| OPIN CAPITAL INC. | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | - | Canada |
| OPIN Yug LLC | Group's project | Developing and managing of project assets in Sochi region | 100% | - | Russia |
| Timonino LLC | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | - | Russia |
| Start Polis LLC | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | - | Russia |
| TM Group LLC | Group's project | Investing in, developing, managing and disposing of future project assets | 100% | - | Russia |
| Pavlovskaya school ANO | Group's project | Provision of education services | 100% | - | Russia |

In addition the Group owns 100% of the shares of Closed Unit Investment Fund Novy Dom ("New House"), which were consolidated in the financial statements of the Group.

As 31 December 2007 and 2006 the shareholders' structure of the Company was as follows:

| **Shareholder** | **31 December 2007** | **31 December 2006** |
|---|---|---|
| Motherlane Properties Limited | 37.97% | 57.84% |
| KM Invest JSC | 19.87% | - |
| Treasury stock | 0.98% | 2.73% |
| Others | 41.18% | 39.43% |
| 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 28.92% shares of the Company as of 31 December 2007.

## 2. PRESENTATION OF FINANCIAL STATEMENTS

***Statement of compliance*** – The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

***Basis of preparation*** - 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";
- Valuation of investment property under development 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".

Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, these 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 statement captions.

These consolidated financial statements are presented in thousands of United States Dollars ("USD"), except for earnings per share amounts and elsewhere where indicated.

***Functional and presentation currencies*** – The consolidated financial statements are presented and measured in USD for the following reasons:

- The majority of the Group's transactions were denominated or completed in USD;
- Owing to the nature of the Group's business, most of management's economic and operational decisions were based on USD;
- Management believed that USD reporting better reflected the economic substance of the underlying events and circumstances relevant to the Group.

During 2007, USD to Russian Ruble ("RUR") rate has significantly decreased, and most of the Group's contractors, including customers, switched to settlements in RUR.

The presentation currency of the Group is USD as management considers it is convenient for users of the consolidated financial statements.

***Foreign currencies*** – All entities of the Group, except for Growth Technologies (Russia) Limited, Onigomati Investment Limited and OPIN CAPITAL INC. maintain their accounting records in Russian Rubles ("RUR") in accordance with the accounting and reporting regulations of the Russian Federation. Growth Technologies (Russia) Limited, Onigomati Investment Limited and OPIN CAPITAL INC. maintain their accounting records in USD and in accordance with IFRS.

In measuring financial statements of the entities domiciled in the Russian Federation in USD for incorporation into the consolidated financial statements, the Group follows a measurement policy in accordance with IAS No. 21 "The Effects of Changes in Foreign Exchange Rates":

- Foreign currency monetary assets and liabilities are measured using the closing rate;
- Non-monetary assets and liabilities in a foreign currency are measured using the exchange rate at the date of the transaction;
- Income and expense items are measured using the exchange rate at the date of the transaction;
- All resulting exchange differences are recorded as gains or losses on foreign currency operations in the consolidated income statement.

The relevant exchange rate of the Central Bank of the Russian Federation used in measuring the financial statements of the entities domiciled in the Russian Federation in US Dollars was USD 1 = 24.5462 RUR as of 31 December 2007 and USD 1 = 26.3311 RUR as of 31 December 2006.

The measurement of RUR denominated assets and liabilities in USD as of 31 December 2007 and 2006 does not indicate that the Group could realize, or settle in USD, the measured value of these assets and liabilities as well as to distribute the disclosed amount of equity to shareholders.

***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 material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

| | **31 December 2007 '000 USD** |
|---|---|
| Investment property (Note 8) | 102,656 |
| Land under development (Note 9) | 1,215,046 |

Investment property and land under development are measured at revalued amounts. The date of the latest appraisal was 31 December 2007.

***Critical judgment in applying the Group's accounting policies*** – In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgment that has the most significant effect on the amounts recognized in the consolidated financial statements (apart from those involving estimations, which are dealt with above):

*Revenue recognition:* Note 25 describes the expenditures incurred by the Group with respect to construction contracts concluded with the Group's customers for the construction of houses on land owned by the Group. Title to those houses and the land has not been transferred to the Group's customers as of the date of these consolidated financial statements. Following negotiation of the terms of these construction contacts, a schedule of work was agreed, which will involve additional Group expenditure until 2009. In light of the specifics attributable to construction contracts, management was required to consider whether it was appropriate to recognize revenue from these transactions of USD 70,461 thousand in the current period, in line with the Group's general policy of recognizing revenue from construction contracts.

In making its judgment, management considered the detailed criteria for the recognition of revenue from construction contracts set out in IAS No. 11 "Construction Contracts" and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the houses and the land. Following a detailed review of the Group's construction contracts, the directors are satisfied that recognition of the revenue in the current year is appropriate, in conjunction with recognition of attributable construction costs.

## 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 subsidiaries as of 31 December 2007 and 2006 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 recognized 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 the consolidated 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 recognized. 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 the consolidated 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.

***Intangible assets*** – Intangible assets are measured initially at purchase cost and are amortized on a straight-line basis over their estimated useful lives, which is on a range of 2-5 years.

***Property, plant and equipment*** – Property, plant and equipment is 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 the consolidated income statement as incurred.

Construction in progress comprises costs directly related to the 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 | 5-20% |
| Transport | 20% |
| Furniture and office equipment | 14-33% |

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 consolidated 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 than 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.

***Investment property*** – Investment property is a property (land or building – or part of a building – or both) held by the Group to earn rentals or for capital appreciation or both, as well as property held for a currently undetermined future use. Investment property is originally recorded at cost. Subsequent expenditure relating to an investment property is 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 they are incurred.

The Group elected to use the fair value model allowed by IAS 40 to measure investment property subsequent to initial recognition. Therefore investment property is stated at fair value.

For a transfer from investment property carried at fair value to owner-occupied property or property held for sale in the ordinary course of business, the property's fair value at the date of transfer is considered as deemed cost for subsequent accounting in accordance with IAS 16 and IAS 2.

***Investment property under development*** – Investment property under development includes land under development and property under development, treated as follows.

Land under development represents land, which is in the process of development by the Group for future use as investment property, and also land under physical transformation (radical improvement) or change in legal status (including change of category of authorized use) with undetermined future use. Management elected to follow the alternative treatment allowed by IAS 16 and, subsequent to initial recognition, such land is carried at a revalued amount determined by independent appraisal, being its fair value at the date of the revaluation. Management plans to perform revaluation of land under development 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 the consolidated income statement 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 directly in the consolidated income statement. However, the decrease shall be debited directly to equity under revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

If, after or in course of the development process, management's intentions related to a certain land parcel is changed such parcel is transferred to the land held for sale category or to the property, plant and equipment and its carrying amount at the date of transfer is considered as its cost as of that date.

Property under development represents buildings that are being constructed for future use as investment property. Property under development is accounted for at cost in accordance with IAS 16. When the construction is completed such buildings are transferred to investment property.

If, after or in course of the development process, management's intentions related to a certain property is changed, such properties are transferred to residential buildings under development or property, plant and equipment and its carrying amount at the date of transfer is considered as its cost as of that date.

***Taxation*** – Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date 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 tax assets and deferred tax liabilities are offset when:

- The Group has a legally enforceable right to set off current tax assets against current tax liabilities;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

***Inventories*** – Inventories comprise land held for sale, residential buildings under development and other inventory, accounted as follows.

Land held for sale represents land parcels (containing houses constructed under contracts, accounted as residential buildings under development, and with the intention of being sold once the construction is completed), and also other land parcels with the intention of being sold in the ordinary course of business. Land held for sale is stated at the lower of cost or net realizable value in accordance with IAS No. 2 "Inventories" ("IAS 2").

Residential buildings under development represent apartments in low-rise buildings, town houses and other property in the process of construction and development with the intention of being sold in the ordinary course of business. Residential buildings under development are stated at the lower of cost or net realizable value in accordance with IAS 2.

Other 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).

***Loans to third parties*** – Loans originated by the Group are financial assets that are created by the Group by providing money to a borrower or by participating in a 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 market are discounted to fair value using the effective interest method.

***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.

***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 in 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.

***Share-based payments*** – The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant (being the fair value of the share less the purchase price). The fair value of the share is determined based on the market prices. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

***Leasing*** – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***Group as lessor*** – Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

***Group as lessee*** – Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease payable.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

***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.

***Borrowing costs*** – Management elected to follow the alternative treatment 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.

***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.

***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.

Hotel and associated revenues are recognized when the rooms are occupied and the services are performed.

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

Revenue from the sales of town houses and apartments in low-rise buildings is recognized when the construction is completed and the property is transferred to the buyer upon signing the act of acceptance.

The Group concludes contracts with its clients for construction of houses and communal infrastructure on 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 the initial amount of revenue agreed in the construction contract and 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 costs that relate directly to the specific construction 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 construction contract.

When the outcome of a construction contract can be estimated reliably, contract revenue and associated contract costs are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. An expected loss on the construction contract is recognized as an expense immediately.

***Interest income and expense*** – Interest income and expense are recognized on an accrual basis using the 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.

***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 the 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 consolidated 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

***Recognition and measurement of financial instruments*** – The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of 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.

***Offset of financial assets and liabilities*** – Financial assets and liabilities are offset and reported net on the consolidated 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 derecognizing, the Group does not offset the transferred asset and the associated liability.

***Business and geographic segments*** – For management purposes the Group is organized into five major business segments: land holdings, 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.

***Reclassifications*** – The following reclassifications have been made to the consolidated financial statements for the year ended 31 December 2006 to conform to the presentation for the year ended 31 December 2007 as management considers that the current period presentation provides a better view of the consolidated financial statements:

| Nature of reclassification | Amount '000 USD | Balance sheet/income statement caption as per the previous report | Balance sheet/income statement caption as per current report |
|---|---|---|---|
| Renaming of the balance sheet item | 525,903 | Land under construction, including land improvements | Investment property under development |
| Aggregation of the balance sheet items under "inventories" caption | 34,419 | Land held for sale | Inventories |
| Aggregation of the balance sheet items under "inventories" caption | 598 | Other inventories | Inventories |
| Aggregation of the balance sheet items under "advances received from customers for inventories" caption | 50,399 | Payable to customers under construction contracts | Advances received from customers for inventories |
| Aggregation of the balance sheet items under "advances received from customers for inventories" caption | 6,978 | Advances received from customers for land plots | Advances received from customers for inventories |

***Adaption of new and revised standards***

The Group has applied IFRS No. 7 "Financial Instruments: Disclosures" as from 1 January 2007. The application of this new standard has only resulted in additional disclosures regarding the Group's financial instruments.

***IFRIC Interpretations***

IFRIC No. 9 "Reassessment of embedded derivatives, IFRIC No. 10 "Interim Financial Reporting and Impairment", and IFRIC No. 11 "Group and treasury share transactions". The first adoption of these new interpretations does not have a material effect on the consolidated financial statements in the current or comparative period.

***Adoption of new and revised standards effective after the reporting date*** – The Group has carried out an assessment of the effect of new and revised standards on its consolidated financial position and results of operations reported under IFRS which became effective for annual periods beginning after 1 January 2008.

In accordance with the provisions of IFRS No. 8 "Operating segments" ("IFRS 8") effective from 1 January 2009 the Group should present additional information regarding operating segments in its consolidated financial statements. The Group has assessed the influence of requirements under IFRS 8 and has developed a plan to introduce systems to provide the appropriate level of disclosures.

In accordance with the provisions of Revised IAS No. 1 "Presentation of Financial Statements" effective from 1 January 2009 the Group should present additional information regarding comprehensive income and non-mandatory changes of the titles of the financial statements. The Group has assessed the influence of requirements under IAS 1 and has developed a plan to introduce systems to provide the appropriate level of disclosures.

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

| **Standards and Interpretations** | **Effective date** |
|---|---|
| Revised IAS No. 23 "Borrowing costs" | Effective for annual periods beginning on or after 1 January 2009 |
| IFRIC No. 12 "Service Concession Arrangements" | Effective for annual periods beginning on or after 1 January 2008 |
| IFRIC No. 13 "Consumer loyalty programmes" | Effective for annual periods beginning on or after 1 July 2008 |
| IFRIC No. 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" | Effective for annual periods beginning on or after 1 January 2008 |

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group.

## 4. GOODWILL

| | **'000 USD** |
|---|---|
| **At 31 December 2005** | 633 |
| Change for the period | - |
| **At 31 December 2006** | 633 |
| Change for the period | - |
| **At 31 December 2007** | **633** |

## 5. INTANGIBLE ASSETS

Intangible assets as of 31 December 2007 and 2006 consisted of the following:

| **'000 USD** | **Computer software** | **Trademarks, licences and logotypes** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| At 31 December 2006 | 102 | 58 | 160 |
| Additions | 942 | 46 | 988 |
| At 31 December 2007 | 1,044 | 104 | 1,148 |
| **Accumulated amortization** | | | |
| At 31 December 2006 | 33 | 5 | 38 |
| Charge for the period | 541 | 4 | 545 |
| At 31 December 2007 | 574 | 9 | 583 |
| **Carrying amount** | | | |
| **At 31 December 2006** | **69** | **53** | **122** |
| **At 31 December 2007** | **470** | **95** | **565** |

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 31 December 2007, 2006 and 2005 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 2005 | 48,140 | 4,624 | 1,869 | 986 | 12,076 | 67,695 |
| Additions | 10,951 | 102 | 261 | 362 | 14,484 | 26,160 |
| Transfer from investment property (Note 8) | 4,684 | - | - | - | - | 4,684 |
| Transfer from land under construction, including land improvements (Note 9) | - | - | - | - | 48 | 48 |
| Putting into operation | 430 | - | - | - | (430) | - |
| Transfers | (592) | - | 592 | - | - | - |
| Disposals | - | - | (21) | (29) | - | (50) |
| At 31 December 2006 | 63,613 | 4,726 | 2,701 | 1,319 | 26,178 | 98,537 |
| Additions | 1,396 | 82 | 716 | 1,122 | 28,975 | 32,291 |
| Disposals | - | (3) | (152) | (39) | - | (194) |
| Transfer to investment property (Note 8) | (258) | - | - | - | - | (258) |
| Transfer from land under development (Note 9 ) | 20 | - | - | - | - | 20 |
| Transfer to residential buildings under development (Note 10) | - | (166) | - | - | (255) | (421) |
| At 31 December 2007 | 64,771 | 4,639 | 3,265 | 2,402 | 54,898 | 129,975 |
| **Accumulated depreciation** | | | | | | |
| At 31 December 2005 | 1,161 | 209 | 658 | 202 | - | 2,230 |
| Charge for the period | 1,357 | 293 | 503 | 222 | - | 2,375 |
| Disposals | - | - | (6) | (29) | - | (35) |
| At 31 December 2006 | 2,518 | 502 | 1,155 | 395 | - | 4,570 |
| Charge for the period | 1,646 | 214 | 379 | 352 | - | 2,591 |
| Transfer to residential buildings under development (Note 10) | - | (36) | - | - | - | (36) |
| Disposals | - | - | (42) | (14) | - | (56) |
| At 31 December 2007 | 4,164 | 680 | 1,492 | 733 | - | 7,069 |
| **Net Book Value** | | | | | | |
| **At 31 December 2006** | **61,095** | **4,224** | **1,546** | **924** | **26,178** | **93,967** |
| **At 31 December 2007** | **60,607** | **3,959** | **1,773** | **1,669** | **54,898** | **122,906** |

Construction in progress principally includes construction of the A. I. Raikin Retail and Entertainment Center and the infrastructure of the Pavlovo and Pavlovo II Cottage Communities.

As of 31 December 2007 a building with a net book value of USD 34,232 thousand had been pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 21).

During the year ended 31 December 2007 the Group capitalized interest of USD 195 thousand in construction in progress.

During the year ended 31 December 2006 the Group capitalized interest of USD 314 thousand in construction in progress.

## 7. CAPITAL ADVANCES

Capital advances as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Advance payment for the acquisition of land plots | 759,693 | 382,044 |
| Other capital advances | 104,139 | 81,193 |
| **Total** | **863,832** | **463,237** |

Advances paid for the acquisition of land plots are for the purpose of the following programs implementation.

***Pestovo land acquisition*** – In September 2006 the Board of Directors approved the Group's participation in the Bolshoye Pestovo project, which includes the acquisition of up to approximately 1,000 hectares of land in the Moscow region near Pestovo reservoir. The Group already acquired subsidiaries for USD 77 million holding approximately 352 hectares of land. For the remaining land, advances were paid amounting USD 124 million as of 31 December 2007.

***New land acquisition program*** – In December 2006 the Board of Directors approved the Group's participation in a new land acquisition program. Total approved spending for land acquisition in the Moscow, Tver and Yaroslavl regions approximates USD 716 million. The Group acquired subsidiaries for USD 59.6 million (Note 34) holding approximately 3,244 hectares of land. For the remaining land, advances were paid amounting USD 631 million as of 31 December 2007.

During the year ended 31 December 2007 the Group capitalized interest of USD 4,656 thousand in advances paid for capital expenses.

During the year ended 31 December 2006 the Group capitalized interest of USD 4,304 thousand in advances paid for capital expenses.

## 8. INVESTMENT PROPERTY

| '000 USD | Buildings | Land plots | Land plots with buildings | Total |
|---|---|---|---|---|
| **At 31 December 2005** | 19,671 | 11,000 | 18,600 | 49,271 |
| Acquisition of subsidiaries (Note 35) | - | 40,336 | - | 40,336 |
| Additions | - | 614 | 608 | 1,222 |
| Transfer from land under construction, including land improvements (Note 9) | - | - | 13,222 | 13,222 |
| Transfer to property, plant and equipment (Note 6) | (4,684) | - | - | (4,684) |
| Disposals | - | - | (1,800) | (1,800) |
| Change in fair value | 7,563 | 21,049 | 14,870 | 43,482 |
| **At 31 December 2006** | 22,550 | 72,999 | 45,500 | 141,049 |
| Additions | - | 60 | 979 | 1,039 |
| Change in fair value | 15,753 | 100 | 22,216 | 38,069 |
| Transfer from property, plant and equipment (Note 6) | 258 | - | - | 258 |
| Transfer from land under development (Note 9) | - | - | 91 | 91 |
| Transfer to land held for sale (Note 10) | - | (61,860) | (11,300) | (73,160) |
| Disposal | - | - | (4,690) | (4,690) |
| **At 31 December 2007** | **38,561** | **11,299** | **52,796** | **102,656** |

The fair value of Group's investment property has been arrived at on the basis of valuation carried out by independent appraisers. The valuation, which conforms to International Valuation Standards, was arrived at primarily by applying the income capitalization method.

As of 31 December 2007 land plots with buildings with a book value of USD 18,000 thousand had been pledged as collateral under the loan received from JSCB ROSBANK (Note 21).

## 9. INVESTMENT PROPERTY UNDER DEVELOPMENT

Investment property under development as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Land under development with undetermined future use | 731,361 | 176,608 |
| Land under development for commercial purpose use | 483,685 | 227,745 |
| Property under development | 135,764 | 121,550 |
| **Total** | **1,350,810** | **525,903** |

As of 31 December 2007 and 2006 land under development with undetermined future use consisted of:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | 176,608 | 123,443 |
| Revaluation surplus (Note 16) | 248,662 | 30,376 |
| Additions | 8,615 | 3,400 |
| Acquisition of subsidiaries (Note 34) | 365,007 | 19,389 |
| Transfer to land held for sale (Note 10) | (67,531) | - |
| **At the end of the year** | **731,361** | **176,608** |

As of 31 December 2007 and 2006 land under development for commercial purpose use consisted of:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | 227,745 | 128,086 |
| Revaluation surplus (Note 16) | 416,987 | 58,927 |
| Additions | 11,325 | 10,677 |
| Acquisition of subsidiaries (Note 34) | - | 42,352 |
| Transfer to investment property (Note 8) | (91) | (3,091) |
| Transfer to fixed assets (Note 6) | (20) | - |
| Transfer to land held for sale (Note 10) | (172,261) | (9,206) |
| **At the end of the year** | **483,685** | **227,745** |

Land is recorded at revalued amount in the basis of valuation carried out by independent appraisers. The valuation, which conforms to International Valuation Standards, was arrived at primarily by applying the income capitalization method.

During the year ended 31 December 2007 the Group capitalized interest in land under development with undetermined future use and in land under development for commercial purposes of USD 3,465 thousand and USD 117 thousand, accordingly.

During the year ended 31 December 2006 the Group capitalized interest in land under development with undetermined future use and in land under development for commercial purposes of USD 6,966 thousand and USD 137 thousand, accordingly.

As of 31 December 2007 and 2006 property under development consisted of:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | 121,550 | 42,788 |
| Additions | 74,864 | 107,163 |
| Acquisition of subsidiaries (Note 34) | 273 | 1,316 |
| Transfer to cost of construction contracts | - | (19,538) |
| Transfer to investment property (Note 8) | - | (10,131) |
| Transfer to fixed assets (Note 6) | - | (48) |
| Transfer to residential buildings under development (Note 10) | (60,923) | - |
| **At the end of the year** | **135,764** | **121,550** |

During the year ended 31 December 2007 the Group capitalized interest in property under development of USD 1,613 thousand.

During the year ended 31 December 2006 the Group capitalized interest in property under development of USD 1,629 thousand.

## 10. INVENTORIES

Inventories, at cost, as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Land held for sale in the ordinary course of business | 94,645 | - |
| Land held for development and sale | 223,388 | 34,419 |
| Residential buildings under development | 163,711 | - |
| Other inventories | 988 | 598 |
| **Total** | **482,732** | **35,017** |

Land held for sale in the ordinary course of business as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | - | - |
| Transfer from land under development (Note 9) | 32,807 | - |
| Transfer from investment property (Note 8) | 73,160 | - |
| Transfer to cost of land sold | (11,322) | - |
| **At the end of the year** | **94,645** | **-** |

Land held for development and sale as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | 34,419 | 34,658 |
| Transfer from land under development (Note 9) | 206,985 | 9,206 |
| Transfer to cost of land sold | (18,016) | (9,445) |
| **At the end of the year** | **223,388** | **34,419** |

Residential buildings under development as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | - | - |
| Additions | 160,845 | - |
| Transfer from property, plant and equipment (Note 6) | 385 | - |
| Transfer from property under development (Note 9) | 60,923 | - |
| Transfer to cost of construction contracts (Note 25) | (58,442) | - |
| **At the end of the year** | **163,711** | **-** |

## 11. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Prepaid expenses | 457 | 606 |
| Prepaid current income tax | 767 | 822 |
| Other receivables | 4,964 | 1,130 |
| Other taxes prepaid | 179 | 320 |
| **Total** | **6,367** | **2,878** |

## 12. LOANS TO THIRD PARTIES

Unsecured loans issued as of 31 December 2007 and 2006 consisted of:

| | Interest rate | Currency | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|---|---|
| Nekomercheskoe Partnyorstvo "Blagoustroystvo Kottedzhnogo posyolka "Pestovo" | 7.0%-7.5% | RUR | 18,545 | 18,869 |
| Blauenlaumer Technologies Limited | 7.1% | USD | - | 3,016 |
| Agroreserve LLC | 7.3% | RUR | 1,928 | 1,675 |
| **Total** | | | **20,473** | **23,560** |

## 13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Short-term bank deposits | 409,538 | 295,086 |
| Cash in banks, in RUR | 16,991 | 17,763 |
| Cash in banks, in other currencies | 553 | 537 |
| Petty cash | 10 | 14 |
| **Total** | **427,092** | **313,400** |

## 14. SHARE CAPITAL

| | 31 December 2007 | 31 December 2006 | 31 December 2005 |
|---|---|---|---|
| **Authorized** | | | |
| Ordinary shares at par value of RUR 1,000 each | **13,587,969** | **9,750,976** | **4,875,488** |
| **Including:** | | | |
| **Treasury shares** | | | |
| Ordinary shares at par value of RUR 1,000 each | **133,000** | **266,000** | **-** |

| | '000 USD |
|---|---|
| **Issued and fully paid** | |
| **31 December 2005: 3,590,000 ordinary shares at par value of RUR 1,000 each** | 119,797 |
| Issue of shares: 6,160,976 ordinary shares at par value of RUR 1,000 each | 227,905 |
| Purchase of treasury shares: 399,000 ordinary shares | (14,651) |
| Sale of treasury shares under share based payment program: 133,000 ordinary shares | 4,984 |
| **31 December 2006: 9,484,976 ordinary shares at par value of RUR 1,000 each** | 338,035 |
| Issue of shares: 3,836,993 ordinary shares at par value of RUR 1,000 each | 151,446 |
| Sale of treasury shares under share based payment program: 133,000 ordinary shares at par value of RUR 1,000 each | 4,835 |
| **31 December 2007: 13,454,969 ordinary shares at par value of RUR 1,000 each** | **494,316** |

The extraordinary general meeting of shareholders held on 14 November 2005 approved a capital increase, whereby up to 1,285,488 new ordinary shares each with a nominal value of RUR 1,000 would be issued through an open subscription. The offering price was equal to the Ruble 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 rata to their existing shareholdings. On 26 January 2006 the Company registered a prospectus for the additional issue of shares with the Federal Financial Markets Services ("FFMS"). On 24 March 2006 the Company summarized the results of the pre-emptive rights participation and placed 1,251,424 ordinary shares to existing shareholders. The remaining 34,064 shares were placed through an open subscription. The proceeds from the additional issue of shares were USD 90 million. The issue was registered with the FFMS on 27 April 2006.

On 3 May 2007 the Company completed the distribution of 1,798,063 additional shares with a nominal value of RUR 1,000 each and submitted a notice on the results of the additional release of securities to the FFMS. Shareholders in the Company were given a pre-emptive right of purchase, pro rata to their existing shareholdings. The offering price was not exceeding the Ruble equivalent of USD 180.75 per share at the exchange rate of the Central Bank of the Russian Federation at the date on which the Board of Directors decided on the share price. The proceeds from the additional issue of shares were USD 325,731 thousand.

On 10 October 2007 the Company completed the distribution of 2,038,930 additional ordinary shares with a nominal value of RUR 1,000 each. Shareholders in the Company were given a pre-emptive right of purchase, pro rata to their existing shareholdings. The offering price was of RUR 7,238.95 per share. The proceeds from the additional issue of shares were USD 591,206 thousand.

Treasury shares represent the cost of shares held by the Group to satisfy the Group's share based payment program (Note 18).

## 15. ADDITIONAL PAID-IN-CAPITAL

Additional paid-in-capital as of 31 December 2007 and 2006 consisted of the following:

| '000 USD | Share premium | Under-writing fees | Legal and consulting services | Share based payment | Total |
|---|---|---|---|---|---|
| **At 31 December 2005** | 22,876 | (3,349) | (503) | - | 19,024 |
| Issue of new shares (net of income tax of USD 4,215 thousand) | 743,559 | (11,837) | (1,509) | - | 730,213 |
| Acquisition of treasury shares | (42,690) | - | - | - | (42,690) |
| Sale of treasury shares under share based payment program | 1,610 | - | - | - | 1,610 |
| Recognition of expense under share based payment program (note 18) | - | - | - | 5,015 | 5,015 |
| **At 31 December 2006** | 725,355 | (15,186) | (2,012) | 5,015 | 713,172 |
| Issue of new shares | 765,507 | (9,979) | (1,522) | - | 754,006 |
| Sale of treasury shares under share option plan | - | - | - | 1,783 | 1,783 |
| Recognition of expense under share based payment program (Note 18) | - | - | - | 3,140 | 3,140 |
| **At 31 December 2007** | **1,490,862** | **(25,165)** | **(3,534)** | **9,938** | **1,472,101** |

## 16. REVALUATION RESERVE

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | 113,232 | 69,368 |
| Revaluation surplus on land (Note 9) | 665,649 | 82,741 |
| Deferred tax liabilities arising on revaluation of land (Note 19) | (160,797) | (21,391) |
| Release of revaluation reserve on disposed assets | (7,209) | (3,983) |
| Release of deferred tax liability on revaluation reserve of disposed assets | 1,730 | 956 |
| Decrease in revaluation reserve due to change in investment in subsidiary | - | (14,459) |
| **At the end of the year** | **612,605** | **113,232** |

## 17. MINORITY INTEREST

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| **At the beginning of the year** | - | 5,901 |
| Minority interest in net loss from subsidiary for the year | - | (198) |
| Minority interest in subsidiary's revaluation surplus for the year | - | 6,562 |
| (Decrease) / increase in minority interest due to change in investment in subsidiary | - | (12,265) |
| **At the end of the year** | **-** | **-** |

## 18. SHARE BASED PAYMENT PROGRAM

The Group has established share based payment program. The Group grants an annual opportunity to certain employees to purchase the Company's ordinary shares at a fixed price equal to USD 49.75 per share exercisable on the condition that the employee remains in the Group's employ for at least one year after the exercise date. Fair value at grant date was USD 75.93 per share. The number of share that can be purchased by employees during 2007-2008 amounts to 133,000 per year.

| | 31 December 2007 Shares |
|---|---|
| Outstanding at the beginning of the year | 266,000 |
| **Outstanding at the end of the year** | **133,000** |
| **Exercisable at the end of the year** | **-** |

The Group recognized a total share based payment cost of USD 3,140 thousand and USD 5,015 thousand for the year ended 31 December 2007 (Note 15) and 2006, respectively. The weighted average remaining contractual life is 0.75 years.

## 19. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with Russian statutory tax regulations which may differ from IFRS. The statutory tax rate effective in the Russian Federation, the legal jurisdiction of the majority of the Group's entities, was 24% in 2007 and 2006. The federal tax rate for dividend income in the Russian Federation was 15% if received from foreign subsidiaries and 9% if received from Russian legal entities.

The Group is subject to certain permanent tax differences due to the fact that certain expenses are not deductible and certain income is not taxable 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 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to the recorded values of certain assets.

Temporary differences as of 31 December 2007 and 2006 comprised:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Deductible differences: | | |
| Loss carry forward | 20,271 | 12,383 |
| Property, plant and equipment | 13,394 | 7,839 |
| Other payables and accrued expenses | 1,721 | 19,320 |
| Receivables and prepaid expenses | 1,318 | 1,543 |
| Effect of foreign currency remeasurement of other assets | 101,519 | 21,180 |
| **Total deductible differences** | **138,223** | **62,265** |
| Taxable differences: | | |
| Land under development and land held for sale | 1,389,966 | 359,983 |
| Payable to customers under construction contracts | 33,049 | 21,834 |
| Receivables and prepaid expenses | 39,209 | 7,959 |
| Investment property | 79,437 | 113,620 |
| Property, plant and equipment | 842 | 554 |
| Effect of foreign currency remeasurement of other assets | - | 12 |
| **Total taxable differences** | **1,542,503** | **503,962** |
| Net taxable differences | (1,404,280) | (441,697) |
| Deferred income tax liability (at tax rate) | (351,340) | (112,212) |
| Deferred income tax asset (at tax rate) | 14,313 | 6,836 |
| **Net deferred income tax liability** | **(337,027)** | **(105,376)** |

The relationship between the income tax expense and the Group's accounting profit for the year ended 31 December 2007 and 2006 is explained as follows:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| **Profit before income taxes** | **96,140** | **71,188** |
| Statutory tax rate | 24% | 24% |
| Theoretical income tax at the statutory tax rate | 23,074 | 17,085 |
| Tax on dividends from Russian subsidiary | - | 171 |
| Tax on income from sale of interest in Russian subsidiary to Cyprus subsidiary | - | 1,050 |
| Tax effect of other permanent differences | (13,696) | (5,028) |
| **Income tax expense** | **9,378** | **13,278** |
| **Income tax expense** | | |
| Deferred income tax (credit)/expense | (11,559) | 5,963 |
| Current income tax expense | 20,937 | 7,315 |
| **Total** | **9,378** | **13,278** |
| **Current income tax expense** | | |
| Current income tax benefit charged to equity | - | (477) |
| Current income tax charged to consolidated income statement | 20,937 | 7,315 |
| **Total** | **20,937** | **6,838** |

| Deferred income tax liabilities | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| At the beginning of the year | 112,212 | 59,276 |
| Increase in the deferred income tax liability charged to consolidated income statement | (4,082) | 7,753 |
| Increase in deferred income tax liability charged to equity (Note 16) | 160,797 | 21,391 |
| Disposal of subsidiaries | (1,504) | - |
| Acquisition of subsidiaries (Note 34) | 83,917 | 23,792 |
| **At the end of the year** | **351,340** | **112,212** |

| Deferred income tax assets | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| At the beginning of the year | 6,836 | 586 |
| Acquisition of subsidiaries | - | 722 |
| Increase in deferred income tax assets charged directly to equity | - | 3,738 |
| Increase in deferred income tax assets credited to consolidated income statement | 7,477 | 1,790 |
| **At the end of the year** | **14,313** | **6,836** |

## 20. FINANCE LEASE PAYABLE

In July 2006 the Group signed an agreement with the City of Moscow represented by the Department of State and Municipal Property for the lease of the remaining 20% of the Novotel Hotel premises for 15 years. The effective interest rate is 13% per annum.

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **31 December 2007 '000 USD** | **31 December 2006 '000 USD** | **31 December 2007 '000 USD** | **31 December 2006 '000 USD** |
| No later than one year | 1,973 | 1,678 | 409 | 285 |
| Later than one year and not later than five years | 7,892 | 6,713 | 2,243 | 1,583 |
| Later than five years | 15,882 | 15,523 | 10,098 | 8,956 |
| | 25,747 | 23,914 | 12,750 | 10,824 |
| Less future finance charges | (12,997) | (13,090) | - | - |
| Present value of minimum lease payments | 12,750 | 10,824 | 12,750 | 10,824 |
| Included in the consolidated financial statements as: | | | | |
| Long-term finance lease payable | | | 12,341 | 10,539 |
| Short-term finance lease payable | | | 409 | 285 |
| **Total** | | | **12,750** | **10,824** |

The change in the present value of minimum lease payments in the accounting period is a result of the revision by the lender of the finance lease agreement terms.

## 21. LONG-TERM LOANS

Long-term loans as of 31 December 2007 and 2006 consisted of the following:

| | Currency | Interest Rate | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|---|---|
| JSCB ROSBANK | USD | 11% | 22,460 | 25,000 |
| JSCB Savings bank of the Russian Federation | USD | 11% | 17,750 | 20,750 |
| ING Bank N.V. | USD | 9.75% | 50,000 | - |
| AOZT SPKh "Menzhinets" | RUR | 0.5% | - | 794 |
| Agrorezerv LLC | RUR | 9.0% | 1,983 | - |
| Prepaid credit account maintenance fees | USD | | - | (954) |
| **Total** | | | **92,193** | **45,590** |

As of 31 December 2007 land plots with buildings with a book value of USD 18,000 thousand had been pledged as collateral under the loan from JSCB ROSBANK (Note 8).

As of 31 December 2007 the shares of JSC Hotel Novoslobodskaya and a building with a net book value of USD 34,232 thousand had been pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 6).

JSC OPIN subsidiaries act as guarantors under the loan received from ING Bank N.V.

The loan from AOZT SPKh "Menzhinets" was discounted to fair value at 14% using the effective interest method.

Long-term loans as of 31 December 2007 and 2006 are repayable as follows:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Within one year | 103,000 | 152,750 |
| In the second year | 67,750 | 2,046 |
| In the third to fifth years inclusive | 22,460 | 43,544 |
| Later than five years | 1,983 | - |
| Less: current portion of long-term loans (Note 22) | (103,000) | (152,750) |
| **Total** | **92,193** | **45,590** |

## 22. SHORT-TERM LOANS AND ACCRUED INTEREST

Short-term loans and accrued interest as of 31 December 2007 and 2006 consisted of the following:

| | Interest rate | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|---|
| Current portion of long-term loan from JSCB Savings bank of the Russian Federation (Note 21) | 11% | 3,000 | 2,750 |
| ING Bank N.V. | 9.125% | - | 150,000 |
| ING Bank N.V. | libor+2% | 100,000 | - |
| Accrued interest on long-term and short-term loans | | 882 | 2,055 |
| Prepaid interest on loans | | - | (68) |
| **Total** | | **103,882** | **154,737** |

## 23. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as of 31 December 2007 and 2006 consisted of the following:

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Trade payables to suppliers and service providers | 6,067 | 7,268 |
| Accounts payable to employees | 8,048 | 3,727 |
| Advances received | 1,493 | 924 |
| Other accounts payable and accrued expenses | 21,614 | 126 |
| **Total** | **37,222** | **12,045** |

## 24. REVENUE UNDER CONSTRUCTION CONTRACTS

Revenue under construction contracts for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Revenue under contracts for construction of houses | 70,461 | 39,897 |
| Revenue under contracts for construction of infrastructure and other assets | 24,909 | 5,593 |
| **Total** | **95,370** | **45,490** |

## 25. COST OF CONSTRUCTION CONTRACTS

Cost of construction contracts for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Cost of contracts for construction of houses (Note 10) | 33,723 | 19,538 |
| Cost of contracts for construction of infrastructure and other assets (Note 10) | 24,719 | 5,497 |
| **Total** | **58,442** | **25,035** |

## 26. COST OF HOTEL SERVICES

Cost of hotel services for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Payroll | 3,062 | 3,165 |
| Management fees | 2,519 | 1,997 |
| Materials | 1,801 | 1,455 |
| Depreciation | 1,444 | 1,427 |
| Property tax | 910 | 857 |
| Payroll taxes | 645 | 607 |
| Commissions | 495 | 354 |
| Bank fees for processing credit cards | 405 | 328 |
| Laundry expenses | 398 | 281 |
| Repairs and maintenance | 296 | 260 |
| Insurance | 201 | 235 |
| Security expenses | 193 | 115 |
| Communication and TV expenses | 148 | 139 |
| Consulting services | 99 | 130 |
| Decoration expenses | 54 | 52 |
| Other | 757 | 807 |
| **Total** | **13,427** | **12,209** |

## 27. COST OF RENTAL SERVICES

Cost of rental services for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Property tax | 211 | 232 |
| Repairs and maintenance | 104 | 84 |
| Public utilities | 104 | 100 |
| Rent expense | 69 | 70 |
| Other | 134 | 83 |
| **Total** | **622** | **569** |

## 28. COST OF OTHER SERVICES

Cost of other services for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Payroll | 332 | 194 |
| Repairs and maintenance | 117 | 75 |
| Security expenses | 116 | 50 |
| Rent expense | 76 | 53 |
| Property tax | 37 | - |
| Depreciation | 15 | 11 |
| Professional services | - | 3,078 |
| Bank charges | - | 289 |
| Other | 197 | 578 |
| **Total** | **890** | **4,328** |

## 29. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Payroll | 17,637 | 8,404 |
| Advertising | 3,215 | 1,287 |
| Audit and other consulting services | 2,028 | 871 |
| Depreciation and amortization | 1,677 | 974 |
| Brokerage fees | 1,506 | 1,517 |
| Other operating taxes | 1,381 | 773 |
| Payroll taxes | 1,265 | 781 |
| Security expenses | 891 | 419 |
| Repairs and maintenance | 633 | 409 |
| Property tax | 608 | 381 |
| Insurance | 468 | 292 |
| Bank charges | 395 | 312 |
| Landscaping | 395 | 726 |
| Public utilities | 389 | 91 |
| Travel expenses | 317 | 243 |
| Communications expenses | 289 | 159 |
| Representation expenses | 273 | 81 |
| Rent expense | 170 | 142 |
| Management fees | 100 | 25 |
| Other expenses | 3,300 | 1,531 |
| **Total** | **36,937** | **19,418** |

## 30. INTEREST INCOME

Interest income for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Interest on bank deposits | 15,804 | 7,801 |
| Interest on loans issued | 1,613 | 983 |
| Other interest income | 10,504 | 5,473 |
| **Total** | **27,921** | **14,257** |

## 31. INTEREST EXPENSE

Interest expense for the year ended 31 December 2007 and 2006 consisted of the following:

| | Year ended 31 December 2007 '000 USD | Year ended 31 December 2006 '000 USD |
|---|---|---|
| Interest on bank loans | 17,953 | 22,801 |
| Interest on financial lease | 1,546 | 686 |
| Cost of maintenance of credit accounts | 953 | 1,395 |
| Interest on other loans | 275 | 2 |
| Total borrowing costs | 20,727 | 24,884 |
| Less: amounts included in the cost of qualifying assets (Notes 6, 7 and 9) | (10,036) | (13,350) |
| **Total** | **10,691** | **11,534** |

## 32. 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 for the period 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 for the period attributable to shareholders of the parent company ('000 USD) | Earnings per share (in USD) |
| **Year ended 31 December 2007** | 11,270,566 | 86,762 | 7.70 | 11,481,516 | 86,762 | 7.56 |
| **Year ended 31 December 2006** | 5,773,172 | 58,108 | 10.07 | 5,920,383 | 58,108 | 9.81 |

## 33. DISPOSAL OF SUBSIDIARIES

In June 2007 the Group sold its subsidiaries Stroy Servis Group LLC and Krasnaya Gorka LLC to a third party for the total consideration of USD 19 million. The transaction was treated as sale of land based on its substance.

Summary of disposal of subsidiaries:

| | '000 USD |
|---|---|
| Land sold (consideration received) | 19,048 |
| Cost of land sold (net assets disposed) | (11,300) |
| **Gain on disposal** | **7,748** |

## 34. ACQUISITION OF SUBSIDIARIES

In January 2007 the Group acquired a 100% interest in Capital Service LLC and Invest Polis LLC together with their 100% subsidiary Regional development LLC for USD 85 million, which was paid in cash.

In February 2007 the Group acquired a 100% interest in Extern LLC for USD 12 million, which was paid in cash.

In June 2007 the Group acquired a 100% interest in Selskie zori LLC and Stroy Progress LLC together with their 100% subsidiary Agrosistema LLC for the total consideration of USD 62.9 million, paid in cash.

In June 2007 the Group acquired a 100% interest in Agro Group LLC and Agro Service LLC together with their 100% subsidiary Invest Service LLC for the total consideration of USD 59.6 million, paid in cash.

In December 2007 the Group acquired a 100% interest in TM Group LLC and Start Polis LLC together with their 100% subsidiary Timonino LLC for the total consideration of USD 48 million which was paid in cash.

Had these business combinations been effective at 1 January 2007, neither the revenue, nor the profit of the Group for the year ended 31 December 2007 would have changed significantly. The revenue and the profit of the acquired subsidiaries included in the consolidated financial statements for the year ended 31 December 2007 since their dates of acquisition to the reporting date was not significant.

At the dates of the acquisitions:

| | '000 USD |
|---|---|
| **Net assets acquired:** | |
| Capital advances | 62 |
| Land under development (Note 9) | 365,007 |
| Property under development (Note 9) | 273 |
| Value added tax recoverable | 18 |
| Trade accounts receivable | 5 |
| Other receivables and prepaid expenses | 3,429 |
| Loans issued | 37 |
| Cash and cash equivalents | 288 |
| Deferred tax liability (Note 19) | (83,917) |
| Long-term loans | (1,583) |
| Short-term loans and accrued interest | (268) |
| Trade and other accounts payable | (15,719) |
| Tax liabilities, other than income tax liabilities | (32) |
| Current income tax liability | (248) |
| **Total** | **267,352** |
| Fair value of net assets attributable to 100% ownership interest | 267,352 |
| Goodwill | - |
| **Consideration given**: | |
| Satisfied by cash | (65) |
| Capital advances | (265,598) |
| Accounts payable for the acquisition of subsidiaries | (1,689) |
| **Total** | **(267,352)** |
| Net cash inflow arising on acquisition: | |
| Cash consideration | (65) |
| Cash and cash equivalents acquired | 288 |
| Cash received, net of cash paid on acquisition of subsidiaries | **223** |

## 35. 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 (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 2007 and 2006:

| **'000 USD** | **31 December 2007** | | **31 December 2006** | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Prepaid interest on loans (entities with joint control or significant influence over the entity) | - | - | 68 | 68 |
| Receivables from customers under construction contracts (key management personnel of the entity or its parent) | - | 31,500 | 89 | 11,006 |
| Other receivables and prepaid expenses (entities with joint control or significant influence over the entity) | 1,545 | 6,367 | 172 | 2,878 |
| Long-term loans (entities with joint control or significant influence over the entity) | 22,460 | 92,193 | 25,000 | 45,590 |
| Accrued interest (entities with joint control or significant influence over the entity) | - | 882 | - | 2,055 |
| Advances received from customers for inventories (key management personnel of the entity or its parent) | 32,618 | 123,626 | 1,505 | 57,377 |
| Accounts payable to employees (key management personnel of the entity) | 5,963 | 8,048 | 946 | 3,727 |
| Cash and cash equivalents (entities with joint control or significant influence over the entity | 110,386 | 427,092 | 175,026 | 313,400 |

Included in the consolidated income statement for the year ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

| '000 USD | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Revenue under construction contracts | 3,503 | 95,370 | 1,442 | 45,490 |
| Thereof entities with joint control or significant influence over the entity | 60 | - | 1,401 | - |
| Thereof key management personnel of the entity or its parent | 3,443 | - | 41 | - |
| Revenue from land sold (key management personnel of the entity or its parent) | 1,023 | 39,566 | 1,866 | 11,282 |
| Revenue on rendering other services (entities with joint control or significant influence over the entity) | - | 1,862 | 423 | 5,435 |
| Commission on received bank guarantee (entities with joint control or significant influence over the entity) | - | - | 289 | 289 |
| Bank charges (entities with joint control or significant influence over the entity) | 179 | 395 | 238 | 312 |
| Interest income (entities with joint control or significant influence over the entity) | 4,894 | 27,921 | 6,672 | 14,257 |
| Interest expense (entities with joint control or significant influence over the entity) | 266 | 10,691 | 338 | 11,534 |
| Cost of hotel services (entities with joint control or significant influence over the entity) | 267 | 13,427 | 221 | 12,209 |
| Management fees (entities with joint control or significant influence over the entity) | 100 | 100 | 25 | 25 |
| **Key management personnel compensation:** | | | | |
| Payroll and related taxes | 12,227 | 22,941 | 4,740 | 13,151 |
| Insurance | 43 | 669 | 143 | 527 |
| | **12,270** | **23,610** | **4,883** | **13,678** |

During the year ended 31 December 2007 the Group accrued an interest of USD 2,522 thousand on a loan received from a related party, of which USD 267 thousand is recorded as interest expense and USD 2,255 is capitalized in the cost of long-term assets. During the year ended 31 December 2007 the Group paid interest to a related party of USD 1,896 thousand.

During the year ended 31 December 2006 the Group received a loan from a related party amounting to USD 25,000 thousand. During the year ended 31 December 2006 the Group repaid a loan from a related party amounting to USD 50,000 thousand.

During the year ended 31 December 2006 the Group accrued loan interest of USD 5,515 thousand of which USD 338 thousand is recorded as interest expense and USD 5,177 is capitalized in the cost of long-term assets. During year ended 31 December 2006 the Group paid interest to a related party of USD 4,692 thousand.

During the year ended 31 December 2006 the Group paid commission of USD 204 thousand on a bank guarantee received.

## 36. BUSINESS SEGMENTS

Financial information relating to the Group's consolidated segments is as follows for the year ended 31 December 2007 and 2006:

| '000 USD | Land holdings | Residential property | Commercial property development | Commercial property | Hotel operations | Others | Eliminations | Group total Year ended 31 December 2007 '000 USD |
|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | |
| External sales | 20,275 | 114,172 | 236 | 3,734 | 24,121 | 2,118 | - | 164,656 |
| Inter-segment sales | - | 28 | - | 755 | 9 | 19 | (811) | - |
| **Total revenue** | **20,275** | **114,200** | **236** | **4,489** | **24,130** | **2,137** | **(811)** | **164,656** |
| **RESULT** | | | | | | | | |
| Segment profit before income tax | 8,640 | 26,622 | 5 | 36,514 | 11,139 | 45 | - | 82,965 |
| Unallocated expenses, net | | | | | | | | 13,175 |
| Profit before income tax | | | | | | | | **96,140** |
| Segment capital additions | 733,834 | 80,560 | 75,988 | 597 | 1,434 | 829 | - | 893,242 |
| Unallocated capital additions | | | | | | | | 742 |
| **Capital additions** | | | | | | | | **893,984** |
| Segment depreciation expense | - | 488 | - | - | 1,444 | 66 | - | 1,998 |
| Unallocated depreciation expense | | | | | | | | 593 |
| **Depreciation expense** | | | | | | | | **2,591** |

| '000 USD | Land holdings | Residential property | Commercial property development | Commercial property | Hotel operations | Others | Eliminations | Group total Year ended 31 December 2006 '000 USD |
|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | |
| External sales | - | 55,398 | - | 3,355 | 20,027 | 6,809 | - | 85,589 |
| Inter-segment sales | - | - | - | 626 | 43 | 25 | (694) | - |
| **Total revenue** | **-** | **55,398** | **-** | **3,981** | **20,070** | **6,834** | **(694)** | **85,589** |
| **RESULT** | | | | | | | | |
| Segment profit before income tax | - | 56,430 | - | 12,012 | 7,182 | 1,180 | - | 76,804 |
| Unallocated expenses, net | | | | | | | | (5,616) |
| Profit before income tax | | | | | | | | **71,188** |
| Segment capital additions | 416,927 | 193,381 | 54,743 | - | 10,780 | - | - | 675,831 |
| Unallocated capital additions | | | | | | | | 235 |
| **Capital additions** | | | | | | | | **676,066** |
| Segment depreciation expense | - | 465 | - | - | 1,415 | - | - | 1,880 |
| Unallocated depreciation expense | | | | | | | | 495 |
| **Depreciation expense** | | | | | | | | **2,375** |

Financial information relating to the Group's consolidated segments is as follows as of 31 December 2007 and 2006:

| '000 USD | Land holdings | Residential property | Commercial property development | Commercial property | Hotel operations | Others | Group total 31 December 2007 '000 USD |
|---|---|---|---|---|---|---|---|
| **OTHER INFORMATION** | | | | | | | |
| Segment assets | 1,340,853 | 863,371 | 693,912 | 87,202 | 60,859 | 342 | 3,046,539 |
| Unallocated assets | | | | | | | 452,105 |
| Eliminations | | | | | | | (210) |
| **Total assets** | | | | | | | **3,498,434** |
| Segment liabilities | 133,832 | 246,463 | 119,694 | 16,898 | 24,455 | 7,098 | 548,440 |
| Unallocated liabilities | | | | | | | 180,154 |
| Eliminations | | | | | | | (210) |
| **Total liabilities** | | | | | | | **728,384** |

| '000 USD | Land holdings | Residential property | Commercial property development | Commercial property | Hotel operations | Others | Group total 31 December 2006 '000 USD |
|---|---|---|---|---|---|---|---|
| **OTHER INFORMATION** | | | | | | | |
| Segment assets | 457,573 | 564,027 | 183,975 | 37,419 | 52,438 | 481 | 1,295,913 |
| Unallocated assets | | | | | | | 359,692 |
| Eliminations | | | | | | | (126) |
| **Total assets** | | | | | | | **1,655,479** |
| Segment liabilities | 15,743 | 270,243 | 63,579 | 8,871 | 24,886 | 1,628 | 384,950 |
| Unallocated liabilities | | | | | | | 8,934 |
| Eliminations | | | | | | | (126) |
| **Total liabilities** | | | | | | | **393,758** |

## 37. COMMITMENTS AND CONTINGENCIES

***Capital commitments*** – As of 31 December 2007 commitments of the Group for capital expenditures outstanding under concluded contracts approximated USD 244 million. 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 in effect as of 31 December 2007 and 2006 are presented in the table below.

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Not later than 1 year | 332 | 364 |
| Later than 1 year but not later than 5 years | 716 | 667 |
| Later than 5 years | 3,584 | 3,430 |
| **Total operating lease** | **4,632** | **4,461** |

***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 consolidated 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 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 and these could be significant. While the Group believes it has complied with all applicable regulations and requirements, these regulations and requirements are not always clearly written, are continually updated, are often ambiguous and may be retrospective in effect, and it is often difficult to predict future interpretations by regulatory authorities, and the outcomes of such interpretations. The management of the Group considers that the probability of any material sanctions being undertaken by local authorities against the Group is remote, and believes that no material 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 2007 and 2006, 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.

## 38. SUBSEQUENT EVENTS

The general meeting of the Company's shareholders held on 25 January 2008 approved a capital increase, whereby up to 1,692,252 new ordinary shares each with a nominal value of 1,000 RUR would be issued through an open subscription. Shareholders are granted pre-emptive rights of purchase, pro rata to their existing shareholdings. The price of ordinary share for existing shareholders and new investors will not exceed the Ruble equivalent of USD 290 per new share at the exchange rate of the Central Bank of Russian the Federation determined on the date when the resolution of the Board of Directors on the placement price is adopted. On 29 February 2008 the Company registered a prospectus for the additional issue of shares with the FFMS. The FFMS have sanctioned circulation on additional 423,063 shares outside Russia.

In February 2008 the Group acquired, through its wholly-owned subsidiary Growth Technologies (Russia) Limited ("Growth Technologies"), all of the outstanding Class A Subordinate Voting Shares ("SVS") of Viceroy Homes Limited – the Canadian producer of fabricated homes for an aggregate purchase price of approximately CAD 33.7 million.

The SVS acquired by Growth Technologies represent approximately a 61% equity interest in Viceroy Homes Limited. In connection with the arrangement, JSC OPIN and Growth Technologies have acquired a call option from the holders of all other outstanding Class B Multiple Voting Shares of Viceroy Homes Limited with the intention to acquire them by the end of 2008.

In February 2008 the Group established under Russian jurisdiction the 100% interest subsidiaries Bukhta Koprino LLC and Microraion LLC, which are planned to be the entities for development of Group's projects in Yaroslavl region.

In February 2008 the Group established under Russian jurisdiction a 100% interest subsidiary Viceroy Homes Distribution LLC, which is planned to be the trading company for the houses produced by Viceroy Homes Limited.

Closed Unit Investment Fund Novy Dom was liquidated effective 1 January 2008. Liquidation of the fund has no effect on the Group's future activities.

In February 2008 Deutsche Bank based on the request of the Group established in Ireland the entity OPIN Securities Limited, which is the special purpose vehicle for a potential bonds issue in 2008.

On 7 March 2008 JSC OPIN placed Credit Linked Notes (CLN) for an amount of USD 99.9 million on an unsecured basis at the rate of interest 10.45% per annum for a term of 5 years under the ING Bank N.V. London Global Issuance Program.

## 39. 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 does not hedge its credit risk.

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 procedures, which includes 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 a particular counterparty/customer, or groups of customers once established by the Group's 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, and the 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 is usually required from each potential buyer/seller.

*Tenants:* The Group carries out due diligence procedures. Contracts with tenants include a safety deposit in the amount of lease payments for 1-6 months, which management believes provides sufficient amount to cover the costs and realize planned profit during any 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 the flexibility of its risk management policy implementation.

*Maturity of financial instruments*

| '000 USD | In the first year | In the second year | In the third to the fifth year | After the fifth year | Contractual amount | Carrying amount Year ended 31 December 2007 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash at bank and in hand | 17,554 | - | - | - | 17,554 | 17,554 |
| Time deposits | 409,538 | - | - | - | 409,538 | 409,538 |
| Trade and other receivables | 38,973 | - | - | - | 38,973 | 38,973 |
| Loans issued | 20,473 | - | - | - | 20,473 | 20,473 |
| **Total financial assets** | **486,538** | **-** | **-** | **-** | **486,538** | **486,538** |
| **Financial liabilities** | | | | | | |
| Trade and other payables | 27,681 | - | - | - | 27,681 | 27,681 |
| Loans | 103,882 | 67,750 | 22,460 | 1,983 | 196,075 | 196,075 |
| **Total financial liabilities** | **131,563** | **67,750** | **22,460** | **1,983** | **223,756** | **223,756** |
| **Net financial position** | **354,975** | **(67,750)** | **(22,460)** | **(1,983)** | **262,782** | **262,782** |

| '000 USD | In the first year | In the second year | In the third to the fifth year | After the fifth year | Contractual amount | Carrying amount Year ended 31 December 2006 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash at bank and in hand | 18,314 | - | - | - | 18,314 | 18,314 |
| Time deposits | 295,086 | - | - | - | 295,086 | 295,086 |
| Trade and other receivables | 13,270 | - | - | - | 13,270 | 13,270 |
| Loans issued | 23,560 | - | - | - | 23,560 | 23,560 |
| **Total financial assets** | **350,230** | **-** | **-** | **-** | **350,230** | **350,230** |
| **Financial liabilities** | | | | | | |
| Trade and other payables | 7,394 | - | - | - | 7,394 | 7,394 |
| Loans | 154,737 | 2,046 | 43,544 | - | 200,327 | 200,327 |
| **Total financial liabilities** | **162,131** | **2,046** | **43,544** | **-** | **207,721** | **207,721** |
| **Net financial position** | **188,099** | **(2,046)** | **(43,544)** | **-** | **142,509** | **142,509** |

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

*Gearing ratio*

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Long and short term borrowings | 196,075 | 200,327 |
| Cash and cash equivalents | (427,092) | (313,400) |
| Net debt | (231,017) | (113,073) |
| Equity | 2,770,050 | 1,261,721 |
| **Net debt to equity ratio** | **(8%)** | **(9%)** |

***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, and between its assets and liabilities.

Prior to 2007 the Group maintained the US dollar as the currency for most of its contracts with service providers, tenants, buyers and sellers of property, and debt instruments outstanding. By the end of 2007 most of the Group's contractors switched the terms of agreements to the Russian Rubles. This led to change in the functional currency of the Group from USD to RUR since 1 January 2008.

The Group does not hedge its currency risk.

***Financial instruments by currency***

| '000 USD | USD | RUR | EUR | Total Year ended 31 December 2007 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash at bank and in hand | 440 | 17,001 | 113 | 17,554 |
| Time deposits | 1,661 | 407,877 | - | 409,538 |
| Trade and other receivables | 16,469 | 22,504 | - | 38,973 |
| Loans issued | - | 20,473 | - | 20,473 |
| **Total financial assets** | **18,570** | **467,855** | **113** | **486,538** |
| **Financial liabilities** | | | | |
| Trade and other payables | 3,260 | 24,421 | - | 27,681 |
| Loans | 194,092 | 1,983 | - | 196,075 |
| **Total financial liabilities** | **197,352** | **26,404** | **-** | **223,756** |
| **Net financial position** | **(178,782)** | **441,451** | **113** | **262,782** |

| '000 USD | USD | RUR | EUR | Total Year ended 31 December 2006 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash at bank and in hand | 516 | 17,777 | 21 | 18,314 |
| Time deposits | - | 295,086 | - | 295,086 |
| Trade and other receivables | 10,805 | 2,465 | - | 13,270 |
| Loans issued | 3,016 | 20,544 | - | 23,560 |
| **Total financial assets** | **14,337** | **335,872** | **21** | **350,230** |
| **Financial liabilities** | | | | |
| Trade and other payables | 5,487 | 1,906 | 1 | 7,394 |
| Loans | 199,533 | 794 | - | 200,327 |
| **Total financial liabilities** | **205,020** | **2,700** | **1** | **207,721** |
| **Net financial position** | **(190,683)** | **333,172** | **20** | **142,509** |

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

All the Group's debt instruments outstanding as of 31 December 2007 are fixed rate. The Group plans to continue borrowing at a fixed rate in the future. For any future borrowing at variable interest rate the Group will consider the possibility of hedging its interest risk.

***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 ensure 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 through long-term borrowings and to maintain a 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.

Included in note below is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| '000 USD | Weighted average effective interest rate | Less than one month | One to three months | Three months to one year | One to five years | After the fifth year | Carrying amount Year ended 31 December 2007 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Trade and other payables | - | 4,279 | 9,075 | 14,327 | - | - | 27,681 |
| Finance lease liability | 13.0 | 33 | 65 | 311 | 2,243 | 10,098 | 12,750 |
| Loans | 10.3 | 882 | - | 103,000 | 90,210 | 1,983 | 196,075 |
| **Total financial liabilities** | | **5,194** | **9,140** | **117,638** | **92,543** | **12,081** | **236,506** |

| '000 USD | Weighted average effective interest rate | Less than one month | One to three months | Three months to one year | One to five years | After the fifth year | Carrying amount Year ended 31 December 2006 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Trade and other payables | - | 5,862 | 1,532 | - | - | - | 7,394 |
| Finance lease liability | 13.0 | 23 | 45 | 217 | 1,583 | 8,956 | 10,824 |
| Loans | 11.0 | 1,987 | - | 152,750 | 45,590 | - | 200,327 |
| **Total financial liabilities** | | **7,872** | **1,577** | **152,967** | **47,173** | **8,956** | **218,545** |

## 40. FINANCIAL INSTRUMENTS

***Financial assets and liabilities***

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Liquid assets | 447,565 | 336,960 |
| Trade and other receivables | 38,973 | 13,270 |
| **Total financial assets** | **486,538** | **350,230** |
| Trade and other payables | 27,681 | 7,394 |
| Financial liabilities – current | 103,882 | 154,737 |
| Financial liabilities – non current | 92,193 | 45,590 |
| **Total financial liabilities** | **223,756** | **207,721** |
| **Net financial position** | **262,782** | **142,509** |

***By category***

| | 31 December 2007 '000 USD | 31 December 2006 '000 USD |
|---|---|---|
| Loans and receivables | 59,446 | 36,830 |
| Available-for-sale assets | 427,092 | 313,400 |
| **Total financial assets** | **486,538** | **350,230** |
| Financial liabilities at amortized cost | 223,756 | 207,721 |
| **Total financial liabilities** | **223,756** | **207,721** |
| **Net financial position** | **262,782** | **142,509** |

Management considers that the fair value of financial instruments held by the Group did not materially differ from their carrying amounts.