World Trade Center

International Financial Reporting Standards Consolidated Financial Statements and Auditors' Report

31 December 2006

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamiankaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

AUDITORS' REPORT

To the Shareholders and the Board of Directors of World Trade Centre Group:

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company "World Trade Centre" and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cashflows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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

3 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 about whether the consolidated financial statements are free of material misstatement.

4 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall consolidated financial statement presentation.

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

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
24 May 2007

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

	Note	31 December 2006	31 December 2005
ASSETS			
Non-current assets:			
Intangible assets		18	17
Investment property	9	746,599	389,200
Property, plant and equipment	8	129,321	158,223
Prepayments		5,586	850
Defined benefit pension plan prepayment		1,882	1,630
Non-current financial assets	10	365	194
Total non-current assets		**883,771**	**550,114**
Current assets:			
Cash and cash equivalents	13	23,754	9,764
Accounts receivable and prepayments	12	7,431	4,105
Income tax prepaid		1,448	2,073
Inventories		1,224	300
Current financial assets	11	134,878	52,751
Total current assets		**168,735**	**68,993**
Total assets		**1,052,506**	**619,107**
LIABILITIES			
Non-current liabilities:			
Deferred tax liabilities	21	181,044	104,672
Advances from customers		526	475
Other employee benefits		1,291	-
Defined benefit pension liability	18	235	726
Total non-current liabilities		**183,096**	**105,873**
Current liabilities:			
Accounts payable and accrued expenses	17	2,475	1,035
Other taxes payable	16	15,105	1,578
Advances from customers		18,765	13,641
Total current liabilities		**36,345**	**16,254**
Total liabilities		**219,441**	**122,127**
Equity (all attributable to the Company's equity holders):			
Share capital	14	44,691	20,328
Reserves	15	121,213	94,759
Retained earnings		667,161	381,893
Total equity attributable to the Company's equity holders		**833,065**	**496,980**
Total liabilities and Equity		**1,052,506**	**619,107**

Approved for issue and signed on behalf of the Board of Directors on 24 May 2007.

V.M. Serov — V.L. Bogoslovskaya

Director General — Chief Accountant

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

	Note	Year ended December 2006	Year ended December 2005
Revenue	19	116,325	103,973
Investment property fair valuation		309,678	71,000
Total operating income		**426,003**	**174,973**
Payroll	20	42,901	34,218
Depreciation		10,320	5,359
Consulting and other professional services		6,539	2,121
IPO transaction costs		5,426	-
Utilities		4,029	3,818
Repairs and maintenance		3,908	4,292
Charity		3,349	316
FA demolishing costs		3,320	3,204
Materials		3,053	3,689
Property tax		2,534	2,498
Communication		2,087	2,203
Other	20	9,847	5,843
Profit from operations		**328,690**	**107,412**
Interest income		3,526	3,021
Gains less losses from currency rates changes		(2,553)	1,197
Other income		869	293
Profit before income tax		**330,532**	**111,923**
Income tax expense	21	(85,359)	(28,054)
Profit for the year		**245,173**	**83,869**
Earnings per share for profit (all from continuing operations) attributable to the equity holders of the Company, basic and diluted (expressed in USD per share)		**0.2521**	**0.0825**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

		Attributable to equity holders of the Company				Minority interest	Total Equity
	Note	Share capital	Other reserves	Retained earnings	Total		
Balance at 1 January 2005		**44,777**	**76,687**	**308,190**	**429,654**	**-**	**429,654**
Property, plant and equipment:							
- Revaluation		-	32,569	-	32,569	-	32,569
- Realised revaluation reserve	15	-	(2,503)	2,503	-	-	-
Effect of translation to presentation currency		(1,211)	(5,485)	(9,563)	(16,259)	-	(16,259)
Income tax recorded in equity	21	-	(7,665)	-	(7,665)	-	(7,665)
Net income recognised directly in equity		(1,211)	16,916	(7,060)	8,645	-	8,645
Profit for the year		-	-	83,869	83,869	-	83,869
Total recognised income for 2005		(1,211)	16,916	76,809	92,514	-	92,514
Transfer of profit to statutory reserve	15	-	1,156	(1,156)	-	-	-
Acquisition of treasury shares	14	(23,238)	-	-	(23,238)	-	(23,238)
Dividends declared		-	-	(1,950)	(1,950)	-	(1,950)
Balance at 31 December 2005		**20,328**	**94,759**	**381,893**	**496,980**	**-**	**496,980**
Property, plant and equipment:							
- Revaluation		-	(46,155)	-	(46,155)	-	(46,155)
- Realised revaluation reserve	15	-	(3,595)	3,595	-	-	-
Effect of translation to presentation currency		3,945	12,475	40,152	56,572	-	56,572
Income tax recorded in equity	21	-	10,965	-	10,965	-	10,965
Net income recognised directly in equity		3,945	(26,310)	43,747	21,382	-	21,382
Profit for the year		-	-	245,173	245,173	-	245,173
Total recognised income for 2006		3,945	(26,310)	288,920	266,555	-	266,555
Transfer of profit to statutory reserve	15	-	1,249	(1,249)	-	-	-
Acquisition of treasury shares	14	(17,513)	-	-	(17,513)	-	(17,513)
Sale of treasury shares to the public	14	37,931	-	-	37,931	-	37,931
Dividends declared		-	-	(2,403)	(2,403)	-	(2,403)
Proceeds from IPO, net of tax	15	-	51,515	-	51,515	-	51,515
Balance at 31 December 2006		**44,691**	**121,213**	**667,161**	**833,065**	**-**	**833,065**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

	Note	Year ended December 2006	Year ended December 2005
Cash flows from operating activities			
Profit before income tax		330,532	111,923
Adjustments for:			
Depreciation and amortisation	8	10,320	5,359
Gain on investment property fair valuation	9	(309,678)	(71,000)
Interest income		(3,526)	(3,021)
Net foreign exchange (gains) / losses		2,496	(1,197)
Loss on disposal of fixed assets		1,275	-
Other non-cash operating costs		1,673	66
Operating cash flows before working capital changes			
Decrease/(increase) in trade and other receivables		(5,018)	(904)
(Increase)/Decrease in defined benefit pension plan prepayment		(409)	(1,630)
(Increase)/Decrease in inventories		(991)	15
Increase in trade and other payables		988	478
Increase in advances from customers		3,695	1,301
Increase in other taxes payable		6,790	458
Cash generated from operations		38,147	41,848
Income taxes paid		(8,944)	(9,933)
Net cash from operating activities		**29,203**	**31,915**
Cash flows from investing activities			
Purchase of property, plant and equipment		(16,599)	(6,577)
Purchase of investment property		(1,376)	(996)
Increase in financial and other assets		(84,566)	(24,579)
Net cash used in investing activities		**(102,541)**	**(32,152)**
Cash flows from financing activities			
Purchase of treasury shares		(17,478)	(23,238)
Proceeds from IPO		105,654	-
Dividends paid to the Company’s shareholders		(2,314)	(1,947)
Net cash from / (used in) financing activities		**85,862**	**(25,185)**
Effect of exchange rate changes on cash and cash equivalents		1,466	(321)
Net increase/(decrease) in cash and cash equivalents		**13,990**	**(25,743)**
Cash and cash equivalents at the beginning of the period		**9,764**	**35,507**
Cash and cash equivalents at the end of the period		**23,754**	**9,764**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

1 The WTC Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 for OAO World Trade Centre (the "Company") and its subsidiaries (together referred to as the "Group" or "WTC Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is an open joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group's immediate parent and ultimate controlling party is the Chamber of Commerce and Industry of the Russian Federation (31 December 2006: the Chamber of Commerce and Industry of the Russian Federation). The Company's shareholders at 31 December 2006 and 31 December 2005 were:

Name	Percentage of ownership at 31 December 2006	Percentage of ownership at 31 December 2005
The Chamber of Commerce and Industry	47%	47%
Limited Liability Company "Sovincenter-2" (treasury shares)	4%	16%
Joins t stock commercial bank "Bank of Moscow" (nominee on behalf of The Property Management Department of Moscow)	10%	10%
Joint Stock Company "DKK" (nominee)	21%	10%
Others	18%	17%
Total	**100%**	**100%**

Voting power of the Company's shareholders at 31 December 2006 and 31 December 2005 was as follows:

Name	Percentage of voting rights at 31 December 2006	Percentage of voting rights at 31 December 2005
The Chamber of Commerce and Industry	54%	54%
Limited Liability Company "Sovincenter-2" (treasury shares)	-	14%
The Property Management Department of Moscow	-	11%
Joint Stock Commercial Bank "Bank of Moscow" (nominee in behalf of The Property Management Department of Moscow)	11%	-
Joint Stock Company "DKK"	21%	9%
Others	14%	12%
Total	**100%**	**100%**

The Company's principal subsidiaries at 31 December 2006 and 31 December 2005 were:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
Soyuz	Hotel management	100%	100%	Russian Federation
Sovincenter-2	Purchase of securities	100%	100%	Russian Federation

1 The WTC Group and its Operations (continued)

Principal activity. The Group is part of the "World Trade Center" global network. The Group's principal business activity is operating a high-quality office, hotel and apartment complex properties. The Group also operates the second largest conference facility in Russia. The Group's portfolio consists of office tower properties, hotel properties and congress center. The World Trade Center is a real estate complex based in Moscow, Russia, and comprising the following:

- Office tower-1
- Office tower-2
- Mezhduarodnaya-1 (hotel)
- Mezhdunarodnaya-2 (office premises and apartments)
- Congress center
- Apartment building Eridan-1
- Apartment building Eridan-2
- Hotel Soyuz.

Registered address and place of business. The Company's registered address is:

Krasnopresnenskaya nab., 12
123610 Moscow, Russian Federation.

Initial Public Offering

Effective 6 December 2006, trading on common and preferred shares of JSC World Trade Center Moscow on RTS Board has started. The Company offered 195,000,000 of its ordinary shares. The Offering comprised a public offering in the Russian federation and private placement to institutional investors in jurisdictions outside the RF. The total amount of proceeds received during IPO was USD 105,300 thousand. Offering price was set at USD 0.54 per share, given a range from USD 0.52 to 0.6 per share. All proceeds from the offering will be directed to finance the Group's major investment projects: construction of the new office-hotel facility comprising 70 thousand square metres (A-class offices, 4-star hotel), reconstruction and re-branding of the hotel "Mezhdunarodnaya-1" under the brand of Crowne Plaza.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2006 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Standard Board (IASB) as adopted by the European Commission in IFRS at 31 December 2006, under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale investments and investment property. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of US Dollars ("USD thousands"), unless otherwise stated. The Group operates in a property development and management market which prices are US dollar driven.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity. When a subsidiary is liquidated the minority interest is paid out to the minority shareholders.

Property, plant and equipment. Buildings and other equipment related to the hotels (except for investment properties - refer to note below) are shown at fair value, based on periodic, but at least annual, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of buildings are credited, net of tax, to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Other plant and equipment is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation on items of property, plant and equipment, based on a component approach, is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	40 to 50
Plant and equipment	2 to 20
Other	2 to 10
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group. Investment property comprises rights to use land received as a shareholder contribution, land under a 50 year operating lease and buildings held to earn rentals, for capital appreciation or both.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Fair values are determined using the discounted cash flow method, having regard to recent market transactions for similar properties in the same location as the property being appraised. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within Revenue. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Where rights to use land are classified as investment property, the Company applies accounting policies described above under Investment property.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. Trading investments and derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Trading investments. Trading investments are carried at fair value. Interest earned on trading investments calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Held to maturity investments. Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

Advances received from customers. Business practices in Russia generally involve a considerable proportion of sales on a prepayment basis, wherein, payment is collected from customers prior to delivery of services.

A considerable proportion of the Group's rental income is made on prepayment terms. Customers transfer funds to the Group before rental services are rendered, and these funds are recorded as advances received from customers at their fair value of consideration. Advances received are amortised to income over the rental period.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cashflow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued or sold is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Where the Company purchases its own shares in the market, the shares are presented as a deduction from equity, at the amount paid including transaction costs, applying the cost method: the gross cost of the treasury shares is shown as a one-line deduction from equity, that is, treasury shares are shown as a separate class of shareholders' equity with a debit balance.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Value added tax. Value added tax related to sales is payable to tax authorities upon accrual of revenue from services rendered to customers. Input VAT is generally reclaimable against sales VAT upon accrual for purchases, except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised 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 will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency is the national currency of the Russian Federation, Russian Roubles ("RR"), and the Group's presentation currency is US dollar.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 (31 December 2005: USD 1 = RR 28.7825).

Revenue recognition. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Gross rental income is determined based on contractual lease term entitlements. The rental income from a lease contract is straight-lined over the period of the contract. The straight-lined income is presented in the period to which it is attributable. Gross rental income includes service charges, such as heating, electricity and security.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are delivered to customers.

Revenue from operating the hotels represents amounts billed in respect of rooms and other services provided and food and beverage sold during the year.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Retirement benefit obligations. The Company's post-employment non-statutory benefit plan is placed with the Chamber of Commerce and Industry's Pension Fund and classifies as a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 23.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Estimate of fair value of PPE and investment properties. The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgements, the Group considers information from a variety of sources including:

- discounted cash flow (DCF) projections, based on reliable estimates of future cash flows derived from the terms of any existing lease and other contracts, and from external evidence such as current market rent for similar properties in the same location an condition, and using discount rates that reflect the current market assessment of the uncertainty in the amount and timing of the cash flows;
- current prices in an active market for offers of different nature, conditions or locations, adjusted to reflect these differences.

If information on current or recent prices of investment properties is not available, the fair value of investment properties is determined using DCF valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each of the balance dates.

The principal assumptions underlying management's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data and to actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar offices in the same location and condition.

If the assumptions used in the valuation of the fixed assets and investment properties varied from those used, the valuations could differ significantly from what was recorded.

Present value of the defined benefit pension plan obligation. The main assumptions used in determining the present value of the defined benefit pension plan obligation are discussed in Note 18.

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2005, unless otherwise described below.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group may now designate financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors; or (c) a contract contains one or more embedded derivatives unless: (i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis when the embedded derivative is first considered that separation of the embedded derivative(s) is prohibited. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have an impact on these financial statements.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Group does not apply hedge accounting and therefore the amendment did not have an impact on these financial statements.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment is not relevant for the Group.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (eg quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment is not relevant for the Group.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these financial statements.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. This interpretation is not relevant for the Group.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised until the measurement period because participation in the market during the measurement period is the obligating event in accordance with IAS 37. This interpretation is not relevant for the Group.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. This standard is not relevant for the Group.

Effect of Adoption. The effect of adoption of the above new or revised standards and interpretations on the Group's financial position at 31 December 2006 and 31 December 2005 and on the results of its operations for the years then ended was not significant.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

6 Segment Information

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of two main business segments:

- Rent of premises, apartments and parking lots – representing renting office premises and apartment units, providing communication and other business services to tenants, and providing a pool of parking lots;
- Hotelling and Congress services – representing managing the hotels and providing catering services to guests, managing congress center, and providing conference services and facilities.

There are no transactions between the business segments.

Other operations of the Group mainly comprise ancillary services such as satellite TV, transportation, repairs and maintenance services, information services and others, neither of which are of a sufficient size to be reported separately.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to property, plant and equipment and costs associated with the construction of WTC-3 building complex that will consist of office premises and a hotel. Due to the early stage of construction works, the Group could not reliably estimate the costs attributable to each segment, and the total construction costs were recorded as Other. Impairment loss and provisions relate only to those charges made against allocated assets.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2006 and 31 December 2005 is set out below:

	Rent of premises, apartments and parking lots	Hotelling and Congress services	Other	Group
Year ended 31 December 2006				
Sales – external	76,769	37,244	2,312	116,325
Investment property fair valuation	309,678	-	-	309,678
Total operating income	386,447	37,244	2,312	426,003
Segment result	372,726	16,403	1,474	390,602
Unallocated expenses				(61,912)
Operating profit				328,690
Interest income				3,526
Gains less losses from currency rates changes				(2,553)
Other income				869
Profit/(loss) before income tax				330,532
Income tax expense				(85,359)
Profit /(loss) for the period				245,173

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

6 Segment Information (Continued)

	Rent of premises, apartments and parking lots	Hotelling and Congress services	Other	Group
At 31 December 2006				
Segment assets	750,818	118,489	3,773	873,080
Total segment assets	750,818	118,489	3,773	873,080
Bank deposits				134,878
Other unallocated assets				44,548
Total assets				1,052,506
Segment liabilities	(18,246)	(1,131)	(1,036)	(20,413)
Total segment liabilities	(18,246)	(1,131)	(1,036)	(20,413)
Current and deferred tax liability				(196,149)
Other unallocated liabilities				(2,879)
Total liabilities				(219,441)
Capital expenditure	1,377	1,956	13,937	17,270
Depreciation and amortisation		(9,482)	(838)	(10,320)
Year ended 31 December 2005				
Sales – external	69,682	31,312	2,979	103,973
Investment property fair valuation	71,000	-	-	71,000
Total operating income	140,682	31,312	2,979	174,973
Segment result	125,123	14,637	1,609	141,369
Unallocated expenses				(33,957)
Operating profit				107,412
Interest income				3,021
Gains less losses from currency rates changes				1,197
Other income				293
Profit/(loss) before income tax				111,923
Income tax expense				(28,054)
Profit /(loss) for the period				83,869
At 31 December 2005				
Segment assets	390,143	151,782	12,843	554,768
Total segment assets	390,143	151,782	12,843	554,768
Bank deposits				52,751
Other unallocated assets				11,588
Total assets				619,107
Segment liabilities	(13,315)	(1,108)	(2,121)	(16,544)
Total segment liabilities	(13,315)	(1,108)	(2,121)	(16,544)
Current and deferred tax liability				(104,672)
Other unallocated liabilities				(911)
Total liabilities				(122,127)
Capital expenditure	996	1,741	4,181	6,918
Depreciation and amortisation	-	(4,555)	(804)	(5,359)

Geographical segments. The Group's two business segments operate in one main geographical area (Moscow, Russia).

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

7 Balances and Transactions with Related Parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's immediate parent and ultimate controlling party are disclosed in Note 1.

In the normal course of business the Group enters into transactions with its related parties. These transactions are shown in the consolidated income statement at contracted prices which could differ from the fair value of services rendered. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2006 and 31 December 2005 are detailed below.

At 31 December 2006, the outstanding balances with related parties were as follows:

	Parent company	Entities under common control	Other related parties
Gross amount of other receivables	14	-	-
Prepayment for consulting services[3]	1,087	-	-
Prepayment made to the Pension fund[1]	-	1,882	-
Defined benefit pension liability [1]	-	235	-
Loan receivable [2]	-	309	-

The income and expense items with related parties for the Year ended 31 December 2006 were as follows:

	Parent company	Entities under common control	Other related parties
Income:			
Hotelling services	226	-	-
Expenses:			
Dividends paid	1,118	-	1,284
Consulting and other professional services [3]	4,594	-	-
Loss from managing a business center [4]	434	-	-
Defined benefit plan – pension expense [1]	-	137	-
Charity[5]	-	3,349	-
Remuneration paid to the members of the Board of Directors	-	-	1,690

[1] *Agreement for non-state pension coverage.* The Company signed an agreement with the Non-state Pension Fund Commerce and Industry Pension Fund regarding non-state pension coverage of the Company's employees. Details of the pension plan are disclosed in Note 18.
[2] *Loan receivable* represents a 4.5% interest bearing loan given to Soyuzexpertiza, an entity under control of the Chamber of Commerce and Industry.
[3] *Consulting services agreement.* The Company has an agreement with the Chamber of Commerce and Industry whereby they provide services to assist the Company in establishing business relations with foreign partners, attracting tenants and also providing media support. In addition, the Company has another agreement with the Chamber of Commerce and Industry for consultancy services.
[4] *Trust management agreement.* The Company has a trust management agreement with the Chamber of Commerce and Industry. According to the agreement, the Chamber transferred a building that it beneficially owns to the Company as trustee. The Company manages the property for the benefit of the Chamber for a consideration which is paid on a quarterly basis in the amount of a 2.5% of all revenues received from the trust management. The Company also guarantees revenues in the amount of RR 30,000 thousand to be received from the trust management, and compensates any unearned revenues to the Chamber.
[5] In June 2006 the Company became a member of the non-commercial enterprise "Saint Elisabeth Clinic" (Clinic). The main activity of the Clinic is rendering medical services. The Company paid membership fees in the amount of RR 15,000 thousand and registration fee in the amount of RR 5,000 thousand. In August 2006 the Company paid a contribution amounted to RR 55,000 thousand. This amount was used for purchasing medical equipment . Also the Company makes contributions to the Fund of Homeless Children on a regular basis. The Fund is controlled by the Chamber of Commerce and Industry.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

7 Balances and Transactions with Related Parties (Continued)

At 31 December 2006 , there were no other rights and obligations with related parties.

Cross shareholding. At 31 December 2006 Sovincenter-2, a 100% owned subsidiary of the Company, owned 0,14% of the ordinary shares of the Company, and 34,15% of the preference shares of the Company. Shares owned by Sovincenter-2 are accounted for as treasury shares, but retain their voting rights and rights to dividends.

At 31 December 2005, the outstanding balances with related parties were as follows:

	Parent company	Entities under common control	Other related parties
Prepayment made to the Pension fund [3]	-	1,630	-

The income and expense items with related parties for the year ended 31 December 2005 were as follows:

	Parent company	Entities under common control	Other related parties
Income:			
Hotelling services	58	-	-
Expenses:			
Dividends declared	907	-	1,043
Consulting and other professional services [6]	2,121	-	-
Professional membership fees	418	-	-
Loss on managing the business center [7]	286	-	-
Defined benefit pension plan – expense [8]	-	726	-
Remuneration paid to the members of the Board of Directors	-	-	373

At 31 December 2005, there were no other rights and obligations with related parties.

Cross shareholding. At 31 December 2006 Sovincenter-2, a 100% owned subsidiary of the Company, owned 0,14% of the ordinary shares of the Company, and 34,15% of the preference shares of the Company. Shares owned by Sovincenter-2 are accounted for as treasury shares, but retain their voting rights and rights to dividends.

Board of Directors. In 2006, the remuneration of members of the Board of Directors totalled USD 1,690 thousand (2005: USD 373 thousand) and comprised service fees (2006: USD 914 thousand, 2005: USD 168 thousand), salaries (2006: USD 275 thousand, 2005: USD 88 thousand), discretionary bonuses (2006: USD 402 thousand, 2005: USD 95 thousand) and other short-term benefits (2006: USD 99 thousand, 2005: USD 22 thousand).

[6] *Consulting services agreement.* The Company has an agreement with the Chamber of Commerce and Industry whereby they provide services to assist the Company in establishing business relations with foreign partners, attracting tenants and also providing media support.

[7] *Trust management agreement.* The Company has a trust management agreement with the Chamber of Commerce and Industry. According to the agreement, the Chamber transferred a building that it beneficially owns to the Company as trustee. The Company manages the property for the benefit of the Chamber for a consideration which is paid on a quarterly basis in the amount of a 2.5% of all revenues received from the trust management. The Company also guarantees revenues in the amount of RR 30,000 thousand to be received from the trust management, and compensates any unearned revenues to the Chamber.

[8] *Agreement for non-state pension coverage.* The Company signed an agreement with the Non-state Pension Fund “Commerce and Industry Pension Fund” regarding non-state pension coverage of the Company’s employees. Details of the pension plan are disclosed in Note 18.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

7 Balances and Transactions with Related Parties (Continued)

The following persons were directors of the Company during the financial years ended 31 December 2006 and 31 December 2005:

Strashko Vladimir P. (Chairman)
Aitkulov Damir Z. (resigned on 18 May 2006)
Kotov Yury I.
Kuprianov Alexandr A.
Lipatnikov Nikolai M. (resigned on 18 May 2006)
Petrov Georgi G. (resigned on 18 May 2006)
Tarachanov Sergei A. (the Director General of the Company)
Katenev Vladimir I. (appointed as a director on 18 May 2006)
Komarov Evgeni B. (appointed as a director on 18 May 2006)
Serov Valeri M. (appointed as a director on 18 May 2006)

8 Property, Plant and Equipment

	Note	Buildings	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2005		**128,396**	**8,576**	**500**	**1,494**	**138,966**
Accumulated depreciation		**(3,017)**	**(5,924)**	**(352)**	**-**	**(9,293)**
Carrying amount at 1 January 2005		**125,379**	**2,652**	**148**	**1,494**	**129,673**
Additions		1,741	1,376	24	2,875	6,016
Disposals		-	(6)	(1)	-	(7)
Revaluation		32,569	-	-	-	32,569
Effect of translation to presentation currency – cost or valuation		(4,641)	(396)	(20)	(103)	(5,160)
Depreciation charge		(4,555)	(735)	(69)	-	(5,359)
Effect of translation to presentation currency – depreciation		187	289	16		492
Cost or valuation at 31 December 2005		**158,065**	**9,550**	**503**	**4,266**	**172,384**
Accumulated depreciation		**(7,385)**	**(6,370)**	**(406)**	**-**	**(14,161)**
Carrying amount at 31 December 2005		**150,680**	**3,180**	**97**	**4,266**	**158,223**
Additions		1,480	937	286	13,190	15,893
Disposals		(138)	(29)	(220)	(2,744)	(3,131)
Transfers		(8,508)	8,575	1,665	(1,732)	-
Revaluation		(46,155)	-	-	-	(46,155)
Effect of translation to presentation currency – cost or valuation		14,484	475	(137)	681	15,503
Depreciation charge		(5,872)	(3,675)	(773)	-	(10,320)
Effect of translation to presentation currency – depreciation		(879)	9	178	-	(692)
Cost or valuation at 31 December 2006		**119,228**	**19,508**	**2,097**	**13,661**	**154,494**
Accumulated depreciation		**(14,136)**	**(10,036)**	**(1,001)**	**-**	**(25,173)**
Carrying amount at 31 December 2006		**105,092**	**9,472**	**1,096**	**13,661**	**129,321**

8 Property, Plant and Equipment (continued)

Buildings and other equipment attributable to the Hotel and Congress segment have been revalued to market value at 31 December 2006. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flows (DCF). Fair values were estimated using appropriate valuation techniques using the following assumptions:

- the discount factor used for 2006 was 12.8% for Mezhdunarodnaya-1 and 14.2% for Souz;
- the DCF model assumes the rate per room of USD 221 for Mezhdunarodnaya-1 and USD 82 for Souz with growth of 8% pa during 2007-2008 and further growth of 7% from 2009, occupancy rate of 46% for Mezhdunarodnaya-1 and 69% for Souz, and occupancy rates growth of 2% pa for the hotels up to 2009, with the annualisation of incomes afterwards;
- operating expenses assumed to maintain the above revenue and occupancy growth rates are direct department expenses (eg salaries), fixed charges (eg property tax, insurance, scheduled repairs and maintenance) and other unavoidable costs (eg general and admin). Property tax assumed to be 2% of total carrying value of the Group's assets based on the Russian statutory property tax rate.

Total value of properties derived by appraisers includes market value of the building as well as market value of the land lease rights. Market value of land lease rights attributable to the hotel buildings is not recorded in the Group's consolidated financial statements as an asset, it is accounted for as an operating lease. The value of the portion of the land excluded from the total value was determined based on the footprint area underneath the hotel buildings classified as PPE.

The land lease market in Moscow is very volatile and not very transparent where there is limited information available regarding transaction prices. Given the valuation methodology used (i.e. income approach where value of the land is deducted from the total value) the remaining value (i.e. value of the building including all fixture and fittings) is likely to be volatile also. As a result, decrease in market value of buildings is attributable to the increase in value of the land lease rights. The decline in the value of the hotel building is mainly caused by slower growth of the occupancy rates and higher expenditure projections compared with the prior year estimates.

Included in the above carrying amount is USD 75,501 thousand (2005: USD 119,796 thousand) representing revaluation surplus relating to buildings and other equipment attributable to the Hotel and Congress segment of the Group. At 31 December 2006 the carrying amount of buildings and other equipment would have been USD 40,158 thousand (31 December 2005: USD 36,367 thousand) had the buildings and other equipment been carried at cost less depreciation.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

9 Investment Property

	2006	2005
Investment properties at fair value as at 1 January	**389,200**	**330,300**
Additions	1,377	996
Disposals	-	-
Fair value gains less losses	309,678	71,000
Effect of translation to presentation currency	46,344	(13,096)
Investment properties at fair value as at 31 December	**746,599**	**389,200**

The Group classifies operating leases for plots of land as investment properties. The value of the recorded portion of the land was determined based on the footprint area underneath the buildings classified as investment properties.

The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified appraiser who has recent experience in valuing similar properties in the Russian Federation.

The methods and significant assumptions applied in determining the fair value were as follows:

- the discounted cash flow method was used to arrive at fair values of land and properties classified as investment property at 31 December 2006 and 31 December 2005;
- the discount factor used was 12.8% for year ended 31 December 2006 (15 % for the year ended 31 December 2005);
- the DCF model assumes the rental rate of approximately USD 651 per square meter for WTC with 20% growth in 2007-2008, with stabilisation in 2010, occupancy rates approximate 100% for the office premises available for rent, with the annualisation of incomes afterwards;
- for apartment units the rental rate is assumed at USD 473 pa growing by 4% pa.;
- the DCF model assumes the rental rate of approximately USD 744 per square meter for Mezhdumarodnaya-2 with 6% growth, occupancy rates approximate 100% for the premises available for rent, with the annualisation of incomes afterwards;
- for parking a USD 290 monthly rental rate is assumed with occupancy rates approximating 100%;
- it is assumed that variable costs for office premises are USD 95 pr square meter and for parking – USD 20 per square meter, administrative expenses account for 2.5% of total growth rentals. In addition, the Group is assumed to be paying some fixed charges (eg property tax and insurance), as well as renovation and repair costs;
- USA CPI (inflation rate applied for the purposes of DCF) is assumed at a level of 6% pa.

Revenues and expenses attributable to the rental premises are disclosed in Note 6.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

10 Non-current financial assets

	31 December 2006	31 December 2005
Assets available for sale		
Corporate shares:		
Vneshtorgbank shares (0.002%)	15	14
ZAO "Eurostrakh" (9.0%)	3	3
Assets held to maturity		
OVVGZ 3% coupon bonds	27	25
Loans and receivables		
Loans given to related party	205	-
Loans given to employees	115	152
Total non-current financial assets	**365**	**194**

Available-for-sale investments include equity securities, which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. Management could not reliably estimate fair value of its investment in shares of Vneshtorgbank and ZAO "Eurostrakh". These investments are carried at cost of USD 14 thousand and USD 3 thousand respectively (31 December 2005: USD 14 thousand and USD 3 thousand). These investees' shares are not quoted and recent trade prices are not publicly accessible.

For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December 2006.

OVVGZ are USD denominated loan bonds issued by the Ministry of Finance of the Russian Federation. OVVGZ bonds have maturity dates in 2008, with a coupon rate of 3% payable annually.

Loans given to a related party represent a non-current portion of the loan provided to Souzexpertiza, the Company's related party. Interests are payable on a monthly basis at a rate of 4.5% p.a. Loans are carried at amortized cost.

11 Current financial assets

	31 December 2006	31 December 2005
Assets held to maturity		
Corporate bonds	349	-
Cash held by broker on the bank account	42	-
Loans and receivables		
Loans given to a related party	104	-
Loans given to employees	56	-
Assets held for trading		
Corporate bonds	7,508	-
Cash held by trustee on the bank account	539	**-**
Bank deposits		
Bank deposits USD denominated (interest rate: 5.67% p.a.; 2005: 5.38% p.a.)	15,575	25,431
Bank deposits RR denominated (interest rate: 6.56% p.a.; 2005: 6.62% p.a.)	102,403	27,320
Bank deposits EUR denominated (interest rate: 7.25% p.a.)	8,302	-
Total current financial assets	**134,878**	**52,751**

Assets held to maturity include corporate bonds of Russian legal entities with maturity dates in 2007 and average coupon rate of 14%. All bonds are traded in active market. Bonds are carried at amortized cost.

Assets held for trading include an investment portfolio of corporate bonds held and managed by the investment company (trustee). These investments are carried at fair value which is determined directly by reference to published price quotations in an active market. All investments included in the portfolio are traded in an active market. The asset growth bonus of the portfolio is amounted to 15% p.a.

Cash held by trustee on the bank account represents restricted cash given to the trust management, but not used for the purchase of investments.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

11 Current financial assets (continued)

Cash held by broker on the bank account represents restricted cash placed in the special bank account for the purposes of purchase of securities, but not used.

Loans given to a related party represent a current portion of the loan provided to Souzexpertiza, the Company's related party. Interests are payable on the monthly basis at a rate of 4.5% p.a. Loans are carried at amortized cost.

12 Accounts receivable and Prepayments

	31 December 2006	31 December 2005
Trade receivables	1,458	1,102
VAT recoverable	372	1,235
Other receivables	2,598	480
Prepayments	3,415	1,398
Less impairment loss provision	(412)	(110)
Total trade and other receivables	**7,431**	**4,105**

Trade receivables of USD 134 thousand (31 December 2005: USD 130 thousand) net of impairment loss provisions are denominated in foreign currency, mainly in US dollars.

13 Cash and Cash Equivalents

	31 December 2006	31 December 2005
Cash on hand	12	6
RR denominated bank balances (interest rate: 0.35% p.a.; 2005: 0.35% p.a.)	22,277	3,438
USD denominated bank balances (interest rate: 0.35% p.a.; 2005: 0.35% p.a.)	1,312	1,144
USD denominated overnights (interest rate 2005: 7.0%)	-	5,000
Corporate card accounts	56	33
Cash in transit	97	143
Total cash and cash equivalents	**23,754**	**9,764**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

14 Share capital

	Number of outstanding shares	Ordinary shares	Preference shares	Share capital	Treasury shares	Total
At 1 January 2005	1,245,000,000	39,029	5,838	44,867	(90)	44,777
Acquisition of treasury shares	-	-	-	-	(23,238)	(23,238)
Translation to presentation currency	-	(1,402)	(210)	(1,612)	401	(1,211)
At 31 December 2005	1,245,000,000	37,627	5,628	43,255	(22,927)	20,328
At 1 January 2006	1,245,000,000	37,627	5,628	43,255	(22,927)	20,328
Acquisition of treasury shares	-	-	-	-	(17,513)	(17,513)
Sale of treasury shares to public	-	-	-	-	37,931	37,931
Translation to presentation currency	-	3,503	524	4,027	(82)	3,945
At 31 December 2006	1,245,000,000	41,130	6,152	47,282	(2,591)	44,691

The Company's shareholders approved a resolution to transfer from retained earnings to share capital the monetary loss recognised in previous years on the restatement of share capital for the effects of hyperinflation. Following the reclassification, the nominal registered amount of the Company's issued share capital corresponds to the amount reported in these consolidated financial statements.

The total authorised number of ordinary shares is 1,083,000 thousand shares (2005: 1,083,000 thousand shares) with a par value of RR 1 per share (2005: RR 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The total authorised number of preference shares is 162,000 thousand shares (2005: 162,000 thousand shares) with a par value of RR 1 per share (2005: RR 1 per share). All issued preference shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Preference share dividends are set by the Charter of the Company at no less that 1% of the par value of preference shares p.a. (2005: 1% p.a.) and rank above ordinary dividends.

At 31 December 2006 treasury shares include 1,511,800 ordinary and 55,315,260 preference shares of the Company (31 December 2005: 151,089,400 ordinary and 42,471,060 preference shares) owned by a wholly owned subsidiary of the Group, Sovincenter-2. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the Management of the Group.

Dividends declared and paid during the period were as follows:

	31 December 2006		31 December 2005	
	Ordinary	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	19	4	19	3
Dividends declared during the period	2,090	313	1,696	254
Dividends paid during the period	(2,005)	(309)	(1,695)	(252)
Effect of translation to presentation currency	(86)	-	(1)	(1)
Dividends payable at 31 December	**18**	**8**	**19**	**4**
Dividends per share declared during the period (in USD)	**0.0019**	**0.0019**	**0.0016**	**0.0016**

All dividends are declared and paid in Russian Roubles.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

15 Other Reserves

	Revaluation reserve for property, plant and equipment	Share premium	Statutory reserve	Currency translation reserve	Total
At 1 January 2005	67,163	-	4,687	4,837	76,687
Revaluation	32,569	-	-	-	32,569
Realised revaluation reserve	(2,503)	-	-	-	(2,503)
Income tax effects	(7,665)	-	-	-	(7,665)
Transfer of profit to statutory reserve	-	-	1,156	-	-
Effect of translation to presentation currency	-	-	-	(5,485)	(5,485)
At 31 December 2005	89,564	-	5,843	(648)	94,759
Revaluation	(46,155)	-	-	-	(46,155)
Realised revaluation reserve	(3,595)	-	-	-	(3,595)
Income tax effects	10,965	-	-	-	10,965
Transfer of profit to statutory reserve	-	-	1,249	-	1,249
Net proceeds from IPO, net of tax	-	51,515	-	-	51,515
Effect of translation to presentation currency	-	-	-	12,475	12,475
At 31 December 2006	50,779	51,515	7,092	11,827	121,213

Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal. Currency translation reserve represents an effect of translation of balances from measurement to presentation currency.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For year ended 31 December 2006, the current period net statutory profit for the Company as reported in the published annual statutory reporting forms was USD 65,076 thousand (year ended 31 December 2005: USD 27,552 thousand) and the closing balance of the accumulated profit including the current period net statutory profit totalled USD 166,158 thousand (31 December 2005: USD 76,778 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The Russian statutory reserve is established in accordance with the Charter of the Company to reach no less than 15% of the share capital. The reserve is formed by transfers of no less than 5% of the net profit for the year. The distribution of the reserve is limited by the Charter to recovery of possible losses, redemption of promissory notes and repurchase of own shares of the Company.

Share premium represents the excess of contributions received over the nominal value of shares sold as a result of an initial public offering on 6 December 2006.

16 Other taxes payable

	31 December 2006	31 December 2005
Other taxes payable within one year comprise:		
Value-added tax	1,086	967
Income tax	13,346	-
Property and other taxes	673	611
Total other taxes payable	**15,105**	**1,578**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

17 Accounts payable and accrued expenses

	Note	31 December 2006	31 December 2005
Trade payables		695	700
Accruals		1,301	186
Payables to shareholders		26	23
Other creditors		453	126
Trade and other payables		**2,475**	**1,035**

18 Retirement benefit obligations

All employees of the Group are entitled to benefits from the Group's pension plan on retirement, disability or death. The Group has one plan with a defined benefit section (non-state pension fund) and a defined contribution section (state pension fund). The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The defined benefit pension plan provide for monthly pension during 5 years upon attaining statutory retirement age (55 – females, 60 – males). The pension is settled via the Non-state pension fund Chamber of Commerce and Industry Pension Fund. The pension plan is unfunded, as the contract with the fund specifies an option for the Company to unconditionally withdraw any contributions made.

There were 1,329 active participants to the defined benefit plan at 31 December 2006 (31 December 2005: 1,419).

The following sets out details in respect of the defined benefit section only.

(a) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	Note	31 December 2006	31 December 2005
Present value of the defined benefit obligation		679	3,741
Fair value of defined benefit plan assets		-	-
		679	3,741
Unrecognised actuarial (losses) / gains		52	-
Unrecognised past service costs		(481)	(3,015)
Effect of translation to presentation currency		(15)	-
Net liability in the balance sheet		**235**	**726**

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the defined benefit section of the plan in line with the actuary's latest recommendations.

(b) Amounts recognised in the income statement

No current service costs were charged during the year ended 31 December 2006 due to the fact that the majority of employees joined the plan at the end of the year.

The amounts recognised in the income statement are as follows:

	Note	31 December 2006	31 December 2005
Current service cost		50	-
Interest cost		72	-
Expected return on plan assets		-	-
Net actuarial losses (gains) recognised in period		-	-
Settlements		(53)	-
Amortisation of past service cost		68	726
Total included in employee benefits expense		137	726
Actual return on plan assets		-	-

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

18 Retirement benefit obligations (continued)

(c) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Note	31 December 2006	31 December 2005
Nominal discount rate		6.60% pa	7.00% pa
Nominal pension entitlement increase (before benefit commencement)		9.20% pa	7.10% pa
Nominal increase in pensions-in-pay (after benefit commencement)		4.50% pa	5.00% pa

(d) Changes in the present value of the defined benefit obligation

	Note	31 December 2006	31 December 2005
Defined benefit obligation at the beginning of the period		3,741	-
Service cost		50	-
Interest cost		72	-
Actuarial losses (gains)		(105)	-
Benefits paid		-	-
Benefit amendments		(679)	3,741
Past service costs		(2,642)	-
Effect of translation to presentation currency		242	-
Defined benefit obligation at the end of the period		**679**	**3,741**

(e) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than yearly intervals, and the last such assessment was made as at 31 December 2006.

Total prepayment made by the Company to the fund by 31 December 2006 is USD 1,882 thousand which is recognised as a prepayment made to the fund at 31 December 2006 (31 December 2005: USD 1,630 thousand).

(f) Sensitivity analysis

Sensitivity analysis presented in the table below illustrates the impact of changes in the key assumptions used on the resulting DBO for active members and pensioners as at 31 December 2006:

	Change in DBO as at 31 December 2006	Change in DBO as at 31 December 2005
Real discount rate of 1% p.a. lower than the base case	6%	6%
Real benefit entitlement increase of 1% p.a. higher than the base case prior to benefit commencements	6%	6%
Annuity rate of 4%	-	2%
Death rates of minus 10% to the base case	1%	1%
Withdrawal rates 1%	-	1%

19 Analysis of Revenue by Category

	Year ended 31 December 2006	Year ended 31 December 2005
Rentals	67,420	60,810
Hotelling	26,477	23,327
Communication	6,705	6,209
Catering	6,255	5,619
Exhibition	3,959	2,366
Parking	3,092	2,663
Other	2,417	2,979
Total sales	**116,325**	**103,973**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

20 Operating Income and Expenses

Included in payroll costs are the following expenses:

	Year ended 31 December 2006	Year ended 31 December 2005
Salaries and other payroll related accruals	35,473	28,049
Statutory social security and pension contributions	5,803	4,967
Non-statutory defined benefit pension plan expense	137	726
Other employee benefits	957	-
Voluntary medical insurance	531	476
Total Payroll	**42,901**	**34,218**

Other operating expenses comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
G&A expenses	1,391	976
FA write off	1,275	-
Subscription fees	825	418
BOD remuneration	812	168
Management expenses	797	643
Advertising	648	447
Bank charges	634	496
Security	444	415
Trust management compensation	434	286
Catering	395	276
Benefits to former employees	355	270
Land lease	271	232
Insurance	181	167
Agency commission	58	52
Gifts to employees	50	42
Other	1,277	955
Total Other expenses	**9,847**	**5,843**

21 Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2006	Year ended 31 December 2005
Current tax	9,872	9,292
Deferred tax	75,487	18,762
Income tax expense for the period	**85,359**	**28,054**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

21 Income Taxes (Continued)

A reconciliation between the expected and the actual taxation charge is provided below.

	2006	2005
IFRS profit before tax	**330,532**	**111,923**
Theoretical tax charge at statutory rate of 24% (2005: 24%)	79,328	26,862
Tax effect of items which are not deductible or assessable for taxation purposes:		
- charity	804	76
- Social expenses out of net profit	742	313
- Non deductible non-statutory pension fund expenses	250	165
- remuneration of the Board of Directors and Executive Committee	239	40
- lump sum payments to employees	300	-
- Non deductible membership fees	198	95
- Other	3,498	504
Income tax expense for the year	**85,359**	**28,054**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2005: 24%).

	1 January 2006	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	Effect of translation to presentation currency	31 December 2006
Tax effect of deductible temporary differences					
Impairment provision for receivables	26	68	-	5	99
Accounts payable	45	255	-	12	312
Inventories	137	(41)	-	11	107
Defined benefit pension obligation	174	(130)	-	12	56
Gross deferred tax asset	**382**	**152**	**-**	**40**	**574**
Less offsetting with deferred tax liabilities	**(382)**	**(152)**	**-**	**(40)**	**(574)**
Recognised deferred tax asset	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences					
Property, plant and equipment	(31,280)	(1,295)	10,965	(2,596)	(24,206)
Investment properties	(73,383)	(74,314)	-	(9,263)	(156,960)
Defined benefit pension plan	(391)	(24)	-	(37)	(452)
Gross deferred tax liability	**(105,054)**	**(75,633)**	**10,965**	**(11,896)**	**(181,618)**
Less offsetting with deferred tax assets	**382**	**152**	**-**	**40**	**574**
Recognised deferred tax liability	**(104,672)**	**(75,481)**	**10,965**	**(11,856)**	**(181,044)**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

21 Income Taxes (Continued)

Included in the deferred income tax liability at 31 December 2006 is the amount of USD … thousand that is expected to be recovered within 12 months.

	1 January 2005	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	Effect of translation to presentation currency	31 December 2005
Tax effect of deductible temporary differences					
Impairment provision for receivables	27	-	-	(1)	26
Accounts payable	30	16	-	(1)	45
Inventories	445	(297)	-	(11)	137
Defined benefit pension obligation	-	177	-	(3)	174
Gross deferred tax asset	**502**	**(104)**	**-**	**(16)**	**382**
Less offsetting with deferred tax liabilities	**(502)**	**104**	**-**	**16**	**(382)**
Recognised deferred tax asset	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences					
Property, plant and equipment	(23,387)	(1,220)	(7,665)	992	(31,280)
Investment properties	(58,744)	(17,040)	-	2,401	(73,383)
Defined benefit pension plan	-	(398)	-	7	(391)
Gross deferred tax liability	**(82,131)**	**(18,658)**	**(7,665)**	**3,400**	**(105,054)**
Less offsetting with deferred tax assets	**502**	**(104)**	**-**	**(16)**	**382**
Recognised deferred tax liability	**(81,629)**	**(18,762)**	**(7,665)**	**3,384**	**(104,672)**

Included in the deferred income tax liability at 31 December 2005 is the amount of USD 1,671 thousand that is expected to be recovered within 12 months.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

22 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

At present the Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

Earnings per share are calculated as follows:

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Profit (all from continuing operations) attributable to equity holders of the Company		245,173	83,869
Weighted average number of ordinary shares in issue		927,421,800	1,017,189,317
Basic and diluted earnings per share (all from continuing operations) for profit attributable to equity holder of the Company (expressed in USD per share)		**0.2521**	**0.0825**

23 Contingencies, Commitments and Operating Risks

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims, accordingly no provisions have been made in these consolidated financial statements.

At 31 December 2006 and 31 December 2005 the Group was not engaged in litigation proceedings.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The consolidated income statement as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Group's profit before tax.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2006 no provision for potential tax liabilities had been recorded (2005: no provision). The Group estimates that it has potential obligations from exposure to other than remote tax risks of RR 2,020 thousand (2005: RR 1,050 thousand).

Capital expenditure commitments. At 31 December 2006 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and investment properties totalling USD 16,000 thousand (31 December 2005: USD 3,065 thousand) payable not later than 1 year from the respective reporting date.

Commitments under the franchise agreement. In December 2005 the Group entered into a franchise agreement with Six Continents Hotels, Inc. (now known as InterContinental) under which the Group will be paying a royalty fee entitling it to rename its Mezhdunarodnaya Hotel the "Crown Plaza Moscow – World Trade Center" and the use of certain other related service marks, trademarks, copyrights and designs. Under the agreement, the Group has already paid a one-off fixed amount of USD 228,800 to InterContinental and will pay a monthly variable royalty fee which is the greater of a fixed percentage of the Group's gross room revenue or USD 50,000 per year. In addition, the Group has paid a one-off fixed amount of USD 170,000 for technical support. The Group assessed their commitments under the above agreement based on a percentage of estimated gross room revenue.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

23 Contingencies, Commitments and Operating Risks (Continued)

At 31 December 2006 the Group had the following commitments under the above agreement:

	31 December 2006	31 December 2005
Not later than 1 year	1,330	398
Later than 1 year and not later than 5 years	6,320	5,875
Later than 5 years	750	2,525
Total commitments under the franchise agreement	**8,400**	**8,798**

Operating lease commitments. The Group is the lessee to a land lease agreement, and the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2006	31 December 2005
Not later than 1 year	242	228
Later than 1 year and not later than 5 years	385	362
Later than 5 years	1,645	64
Total operating lease commitments	**2,272**	**654**

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Assets pledged and restricted. At 31 December 2006 the Group did not have any assets pledged as collateral.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

24 Financial Risk Management

Credit risk. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and primarily on credit terms for rental income. The carrying amount of bank deposits, accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Market risk. The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

24 Financial Risk Management (continued)

Foreign exchange risk. The Group maintains USD denominated bank accounts, receives payments in USD from customers as well as invests cash into the short term USD and EUR denominated bank deposits. Foreign currency denominated assets (see Notes 10, 11 and 12) give rise to foreign exchange exposure. The Board of Directors sets limits on the level of exposure by currency and in total. Compliance with limits is monitored regularly.

Cash flow and fair value interest rate risk. The Group's income and operating cash flows are not exposed to changes in market interest rates. The Group has no significant interest-bearing assets.

Liquidity risk. Prudent liquidity risk management mainly implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, Group Finance Department aims to maintain flexibility in funding by keeping sufficient cash available.

Management prepares annual budgets and quarterly plans and monitors the Group's performance against those budgets. Also, marketing department monitors current market rates and updates plans and prices lists if there are significant fluctuations.

25 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value. Refer to Note 10.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

26 Events After the Balance Sheet Date

Dividends. Management proposed to the Annual General Meeting of the Shareholders which will be held in May 2007 a total dividend on ordinary and preference shares of USD 2,791 thousand (USD 0.002 per share).