OAO RTM

Consolidated Financial Statements
for the Year Ended 31 December 2007
Together with Independent Auditor's
Report

BDO

BDO Unicon
Auditors and Consultants

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Independent Auditor's Report

To the Shareholders and the Board of Directors of OAO RTM

We have audited the accompanying consolidated financial statements of OAO RTM and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing and maintaining controls 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

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The consolidated financial statements of the Group's subsidiary "MARTA" Vermögensberatungs GmbH for the year ended 31 December 2007 were audited by another auditor whose report dated 13 June 2008 expressed an unqualified opinion.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Without qualifying our opinion we draw attention to Note 4 to these consolidated financial statements. In the absence of International Financial Reporting Standards or Interpretations containing specific guidance on transactions under common control, management considered appropriate to use a purchase method when dealing with the transactions in which the Group acquired its controlling interest in subsidiaries which were under common control before acquisition. A significant excess of the Group's interest in the net fair value of acquiree's net assets over cost in the amount of USD 57 616 thousand was recognized in the consolidated statement of income for the year ended 31 December 2007 in respect of the subsidiaries that were under common control of ultimate shareholders of the Group, when control was transferred to the Group.

Without qualifying our opinion we draw attention to the information in Note 34 to these consolidated financial statements. As at 31 December 2007, the Group's assets in the amount of USD 494 023 thousand (57.7% of total assets) were pledged as collateral for borrowings received. Shares of several companies of the Group were also pledged as collateral against borrowed funds (Note 34).

Without qualifying our opinion we draw attention to Note 6, Note 7, Note 8, Note 15 and Note 31 to these consolidated financial statements. As at 31 December 2007 the Group has significant balances of investment property in the amount of USD 555 789 thousand (Note 6), land plots under development and construction in progress in the amount of USD 130 480 thousand (Note 7), capital advances in the amount of USD 31 070 thousand (Note 8) and advances for property acquisition in the amount of USD 14 357 thousand that in the whole represent 85.5% of total assets of the Group. As the Group has significant amounts of borrowings (Notes 15, 31), the concentration of Group's assets in real estate development can affect the liquidity position of the Group. Shareholders and management of the Group is confident in its ability to maintain sufficient financing.

Denis A. Taradov
Partner

20 June 2008
BDO Unicon CJSC
11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russian Federation

BDO Unicon
Auditors and Consultants

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

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the audit report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of OAO RTM and its subsidiaries (the Group).

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, the results of its operations, cash flows and changes in equity for year ended 31 December 2007 in accordance with International Financial Reporting Standards (IFRS).

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

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

Management is also responsible for:

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

On behalf of the Group's management the consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 20 June 2008 and signed by:

Eduard G. Vyrypaev
General Director

Alexei S. Seleznev
Deputy Director General of Economy and Finance

Moscow

20 June 2008

(in thousands of US Dollars)

	Note	31 December 2007	31 December 2006
Assets			
Non-current assets			
Investment property	6	555 789	278 341
Land plots under development and construction in progress	7	130 480	97 826
Capital advances	8	31 070	19 422
Advances for property acquisition		14 357	29
Loans issued and deposits	9	-	30 186
VAT recoverable		30 420	23 368
Goodwill	35	8 807	4 179
Fixed assets		956	587
Other assets		863	-
Deferred tax assets	28	688	868
Total non-current assets		**773 430**	**454 806**
Current assets			
Cash and cash equivalents	10	43 848	2 340
Loans issued and deposits	9	7 696	26 495
Accounts receivable	11	12 403	10 854
Advances	12	4 179	2 935
Investments held to maturity	13	6 269	116
Disposal groups classified as held for sale	14	6 860	-
Current income tax asset		799	62
Other assets		548	88
Total current assets		**82 602**	**42 890**
Total assets		**856 032**	**497 696**
Equity and liabilities			
Non-current liabilities			
Borrowings	15	230 159	153 529
Accounts payable	16	4 322	11 731
Deferred tax liabilities	28	89 321	42 296
Total non-current liabilities		**323 802**	**207 556**
Current liabilities			
Borrowings	15	127 574	91 394
Advances received	17	4 336	5 211
Accounts payable	16	15 617	51 381
Disposal groups classified as held for sale	14	1	-
Current income tax liabilities		304	259
Total current liabilities		**147 832**	**148 245**
Total liabilities		**471 634**	**355 801**
Equity			
Share capital	18	5	4
Share premium	19	105 167	-
Treasury shares	18	(928)	-
Revaluation reserve for land plots under development	20	16 570	10 191
Accumulated reserve for exchange differences		22 237	3 276
Retained earnings		241 347	125 905
Equity attributable to the shareholders of the parent company		**384 398**	**139 376**
Minority interest	21	-	2 519
Total equity		**384 398**	**141 895**
Total equity and liabilities		**856 032**	**497 696**

Eduard G. Vyrypaev
General Director

Alexei S. Seleznev
Deputy Director General of Economy and Finance

20 June 2008

(in thousands of US Dollars)

	Note	2007	2006
Revenue from investment property	22	58 622	15 890
Investment property operating expenses	23	(10 261)	(5 084)
Net gain from fair value adjustments on investment property	6	73 580	99 570
Gross operating margin		**121 941**	**110 376**
General and administrative expenses	24	(16 051)	(7 766)
Operating profit		**105 890**	**102 610**
Interest income	25	4 272	1 728
Interest expense	25	(34 836)	(11 142)
Gains less losses from revaluation of foreign currency and dealing in foreign currency		10 272	4 366
Income from assignment agreements		2 279	3 144
Income from sale of investment property	6	2 247	-
Provisions for impairment	26	72	(1 437)
Taxes other than income tax		(3 973)	(1 373)
Other income	27	1 069	1 080
Other expenses	27	(2 588)	(609)
Excess of acquirer's interest in the net fair value of acquiree's net assets over cost	35	57 616	53 202
Profit before taxation		**142 320**	**151 569**
Income tax expense	28	(26 639)	(23 316)
Net loss from discontinued operations	14	(62)	-
Net profit		**115 619**	**128 253**
Attributable to:			
Shareholders of the parent company		115 442	125 905
Minority interest		177	2 348
Basic and diluted earnings per share (US Dollar per share)	**29**	**0.9**	**-**

Eduard G. Vyrypaev
General Director

Alexei S. Seleznev
Deputy Director General of Economy and Finance

20 June 2008

(in thousands of US Dollars)

	Note	2007	2006
Cash flows from operating activities			
Revenue from investment property		50 877	15 817
Investment property operating expenses		(14 443)	(5 023)
General and administrative expenses		(15 406)	(7 759)
Interest income		3 688	1 709
Interest expenses		(35 893)	(11 072)
Income from assignment agreements		(22)	2 038
Income from sale of investment property		2 252	-
Taxes other than income tax paid		(2 654)	(1 362)
Other income		1 043	1 860
Other expenses		(2 587)	(135)
Income tax paid		(3 726)	(670)
Cash flows from operating activities before changes in operating assets and liabilities		**(16 871)**	**(4 597)**
Net increase/decrease in operating assets and liabilities			
Net decrease in accounts receivable		4 286	41 193
Net increase in advances		(1 280)	(2 848)
Net increase in VAT recoverable		(4 332)	(14 786)
Net decrease /(increase) in other assets		(1 265)	172
Net increase in accounts payable		10 479	21 800
Net increase / (decrease) in advances received		(1 150)	5 057
Net cash flows used in operating activities		**(10 133)**	**45 991**
Net cash flows used in discontinuing operating activities		**(105)**	**-**
Cash flows from investing activities			
Net decrease/(increase) in investment property		720	(18 380)
Net increase in land plots under development and constructions in progress		(41 620)	(42 202)
Net decrease/(increase) in fixed assets		497	(753)
Net increase in advances for property acquisition		(29 817)	(28)
Net increase in capital advances		(2 702)	(14 001)
Net decrease/(increase) in loans issued and deposits		19 804	(41 556)
Purchase of investments held to maturity	13	(35 337)	(4 176)
Repayment of investments held to maturity	13	29 915	3 923
Increase/(decrease) in cash and cash equivalents arising on acquisition of subsidiaries		(22 527)	4 312
Net cash used in investing activities		**(81 067)**	**(112 861)**
Net cash used in discontinuing investing activities		**(6 544)**	**-**
Cash flows from financing activities			
Net increase in borrowings		51 028	69 139
Issue of share capital		1	4
Purchase of own shares	19	(928)	-
Share premium	19	87 880	-
Legal and consulting services on share issue	19	(769)	-
Net cash flows used in financing activities		**137 212**	**69 143**
Net cash flows used in discontinuing financing activities		**(11)**	**-**
Effect of exchange rate changes on cash and cash equivalents		2 159	67
Less cash and cash equivalents included in assets relating to disposal groups classified as held for sales		(3)	-
Net change in cash and cash equivalents		**41 508**	**2 340**
Cash and cash equivalents as at the beginning of the period		2 340	-
Cash and cash equivalents as at the end of the period	**10**	**43 848**	**2 340**

Eduard G. Vyrypaev
General Director

Alexei S. Seleznev
Deputy Director General of Economy and Finance

20 June 2008

(in thousands of US Dollars)

	Equity attributable to the shareholders of the parent company							
	Share capital	**Share premium**	**Treasury shares**	**Revaluation reserve for land plots under development**	**Accumulated reserve for exchange differences**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as at 1 January 2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issue of share capital (Note 18)	4	-	-	-	-	-	-	4
Revaluation of land plots under development (Note 20)	-	-	-	13 012	-	-	-	13 012
Deferred taxation on revaluation of land plots under development (Note 20)	-	-	-	(3 123)	-	-	-	(3 123)
Effect of exchange rate changes	-	-	-	302	3 276			3 578
Minority interest arising from acquisition of subsidiaries (Note 21)	-	-	-	-	-	-	171	171
Net profit for the year ended 31 December 2006	-	-	-	-	-	125 905	2 348	128 253
Balance as at 31 December 2006	**4**	**-**	**-**	**10 191**	**3 276**	**125 905**	**2 519**	**141 895**
Issue of share capital (Note 18,19)	1	87 880	-	-	-	-	-	87 881
Expenses related to share capital issue (Note 19)	-	(769)	-	-	-	-	-	(769)
Purchase of own shares	-	-	(928)	-	-	-	-	(928)
Shareholders contribution to subsidiaries' charter capital (Note 19)	-	18 056	-	-	-	-	-	18 056
Revaluation of land plots under development (Note 20)	-	-	-	7 126	-	-	-	7 126
Deferred taxation on revaluation of land plots under development (Note 20)	-	-	-	(1 710)	-	-	-	(1 710)
Effect of exchange rate changes	-	-	-	963	18 961	-	-	19 924
Piecemeal acquisition of subsidiary (Note 21)	-	-	-	-	-	-	(2 696)	(2 696)
Net profit for the year ended 31 December 2007	-	-	-	-	-	115 442	177	115 619
Balance as at 31 December 2007	**5**	**105 167**	**(928)**	**16 570**	**22 237**	**241 347**	**-**	**384 398**

Eduard G. Vyrypaev
General Director

Alexei S. Seleznev
Deputy Director General of Economy and Finance

20 June 2008

(in thousands of US Dollars)

1. Principal Activities of the Group

These consolidated financial statements comprise financial statements of OAO RTM (the Company) and its subsidiaries (the Group).

The Company (former Vremya LLC) was incorporated under the laws of the Russian Federation on 6 April 2004 and registered by the Moscow registration chamber as a limited liability company. On 4 July 2006 Vremya LLC was renamed to RTM LLC and on 14 August 2006 was registered as an open joint stock company (OAO).

The principal activity of the Company and its subsidiaries is focused on operations relating to real estate development and aimed at construction of shopping centres of different formats (from 10 to 120 thousand square meters), management and lease of these facilities. The purpose of the Group is forming of a full developer cycle: from search and acquisition of land plots to management and maintenance of immovable property to be built on the land plots. As at 31 December 2007 the Group has significant balances of investment property in the amount of USD 555 789 thousand (Note 6), land plots under development and construction in progress in the amount of USD 130 480 thousand (Note 7), capital advances in the amount of USD 31 070 thousand (Note 8) and advances for property acquisition in the amount of USD 14 357 thousand that in the whole represent 85.5% of total assets of the Group.

The principal activities and locations of subsidiaries of the Group as at 31 December 2007 are as follows:

			Ownership (%)		Control (%)	
Operating entity	**Country of registration**	**Principal activity**	**31 December 2007**	**31 December 2006**	**31 December 2007**	**31 December 2006**
JSC "RTM Development"	Russia	Management of the project assets of the Group	100%	100%	100%	100%
"RTM Management" LTD	Russia	Management of the project assets	100%	100%	100%	100%
"RTM Finance" LTD	Russia	Financial activity	100%	100%	100%	100%
CJSC "Kaskad"	Russia	Owner of project assets	100%	100%	100%	100%
CJSC "Mercury"	Russia	Owner of project assets	100%	-	100%	100%
JSC "RTM Bryansk"	Russia	Owner of project assets	100%	100%	100%	100%
CJSC FPK "Orbita"	Russia	Owner of project assets	100%	100%	100%	100%
"Torgpromaktiv" LTD	Russia	Owner of project assets	100%	100%	100%	100%
"Averstrade" LLC	Russia	Owner of project assets	100%	-	100%	100%
"VINART" LLC	Russia	Owner of project assets	100%	-	100%	99%
"Dom torgovli № 1 "Era- 2" LLC	Russia	Owner of project assets	100%	100%	100%	100%
"INEX" LTD	Russia	Owner of project assets	100%	-	100%	99%
"KASKAD" LLC	Russia	Owner of project assets	100%	100%	100%	100%
"KrasNedvizhimost" LTD	Russia	Owner of project assets	100%	-	100%	-
OOO "Markon"	Russia	Owner of project assets	100%	100%	100%	100%
"Mobil Systems" LTD	Russia	Owner of project assets	100%	100%	100%	100%
"PANTEKS" LLC	Russia	Owner of project assets	100%	51%	100%	51%
"REKOM" LLC	Russia	Owner of project assets	100%	100%	100%	100%
OOO "Romex – invest"	Russia	Owner of project assets	100%	100%	100%	100%
"RTM Lipetsk" LTD	Russia	Owner of project assets	100%	90%	100%	90%
"RTM Voronezh Severniy" LTD	Russia	Owner of project assets	100%	100%	100%	100%
"RTM - Izmaylovskiy" LTD	Russia	Owner of project assets	100%	100%	100%	100%
"RTM Odintsovo" LTD	Russia	Owner of project assets	100%	-	100%	99%
"RTM – Samara" LTD	Russia	Owner of project assets	99%	100%	100%	100%
"RTM – Razvitie" LTD	Russia	The Company was not carrying on business	100%	-	100%	-
"TEKHOSOFT" LLC	Russia	Owner of project assets	100%	100%	100%	100%
"Tula Rekonstruksiya" LTD	Russia	Owner of project assets	100%	-	100%	99%
"TC Svobodniy" LLC	Russia	Owner of project assets	100%	100%	100%	100%
"FINTRADE" LLC	Russia	Owner of project assets	100%	-	100%	100%

(in thousands of US Dollars)

			Ownership (%)		Control (%)	
Operating entity	**Country of registration**	**Principal activity**	**31 December 2007**	**31 December 2006**	**31 December 2007**	**31 December 2006**
"ExpoTekh" LLC	Russia	Owner of project assets	100%	100%	100%	100%
"ELEGANS" LLC	Russia	Owner of project assets	100%	100%	100%	100%
"ELKO SYSTEMS" LLC	Russia	Owner of project assets	100%	100%	100%	100%
MP Trading LLC	Russia	Owner of project assets	100%	25%	100%	100%
Emsden Investments Limited	Cyprus	Financial activity	100%	100%	100%	100%
"MARTA" Vermögensberatung GmbH	Austria	The company holds 75% stake in Mareal GmbH	100%	-	100%	-
Mareal GmbH	Austria	The company holds 100% stake in REMA Immobilien LLC	75%	-	75%	-
REMA Immobilien LLC	Russia	Owner of project assets	75%	-	75%	-

During the year ended 31 December 2006 the Company acquired thirty two subsidiaries. During the year ended 31 December 2007 the Company founded one subsidiary OOO "RTM - Razvitie" and acquired two subsidiaries: "KrasNedvizhimost" LTD and "MARTA" Vermögensberatung GmbH which, in turn, a parent company for Mareal GmbH and RTM Handels – und Beteiligungs GmbH. Mareal GmbH holds 100% stake in REMA Immobilien LLC.

During the year ended 31 December 2007 the Company increased its stake in share capital of "PANTEKS" LLC from 51% to 100% (Note 35).

During the year ended 31 December 2007 the Company purchased 1% stakes in the following subsidiaries: "RTM Odintsovo" LTD, "INEX" LTD, "Tula Rekonstruksiya" LTD, "VINART" LLC and 10% stakes in "RTM Lipetsk" LTD. As the results, the company's stake in these companies increased to 100%.

As of December 20, 2007 the Company sold 100% of the share in RTM Handels – und Beteiligungs GmbH and as of December 19, 2007 the Company sold 1% stakes in "RTM – Samara" LTD.

As at 31 December 2007 and 31 December 2006 the Company's shareholders were as follows:

Shareholder	**Country of registration**	**31 December 2007**	**31 December 2006**
SMH Limited	Cyprus	42.89%	30.00%
OJSC InvestRetailGroup	Russia	14.25%	19.95%
Pilot Holding GmbH	Austria	9.29%	-
JP Morgan Funds	Luxemburg	6.31%	-
UBS AG	Switzerland	4.96%	-
MARTA Unternehmensberatungs GmbH	Austria	-	50.00%
Other	-	22.30%	0.05%
Total		**100.00%**	**100.00%**

As at 31 December 2007 the ultimate owners of the Group were Mr. Vyrypaev (35.71%), Mr. Trefilov (26.79%) and Mr. Vasiljev (8.93%).

The principal operating office of the Group is located at the following address: Russia, Moscow, Electrozavodskaya st. 21/41.

On 15 April 2007 the Company changed its registered address to the following: Russia, Moscow, Nizhnyaya Krasnoselskaya str. 28/2.

The average number of the Group's employees for the year ended 31 December 2007 was 393 (2006: 238).

2. Operating Environment of the Group

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised as a market economy and a number of principal reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented, the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

Whilst there have been improvements in the economic trends, the Russian Federation continues to display some 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, restrictive currency controls, 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.

(in thousands of US Dollars)

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.

Operations on the Russian securities market are affected by its underdeveloped infrastructure, particularly the stage of development of its registration and settlement systems and the current status of the developing regulatory and legal framework in Russia. The ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

Inflation

Russia continues to experience relatively high but decreasing levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2007	11.0%
31 December 2006	9.0%
31 December 2005	10.9%
31 December 2004	11.7%
31 December 2003	12.0%

Currency transactions and currency control

Foreign currencies, in particular the US dollar (USD) and Euro (EUR), play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the Central Bank of Russia exchange rates of RUR relative to USD and EUR:

Date	USD	EUR
31 December 2007	24.5462	35.9332
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850
31 December 2004	27.7487	37.8104
31 December 2003	29.4545	36.8240

Financial market transactions

Economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. Market quotations may not reflect the values of financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

Russia’s investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the following world rating agencies: Moody's –A2 with “stable” outlook on 25 May 2006, Fitch Ratings –BBB+ with “stable” outlook on 17 August 2006, Standard & Poor’s – BBB+ with “stable” outlook on 4 September 2006.

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US market as many investors have re-evaluated their risk management policies, resulting in increased volatility, lower liquidity and reduced borrowing in the financial markets. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings. Borrowers and debtors of the Group may also be affected by the lower liquidity situation in capital markets, which could in turn impact their ability to repay obligations. Management is unable to reliably estimate the effects on the Group’s financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

The accompanying consolidated financial statements reflect the Group management’s assessment of the impact of the Russian business environment and international markets on the operations and the financial position of the Group. The future economic development of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the Government and other factors, including regulatory and political developments, which are beyond the Group’s control. The Group’s management cannot predict the impact of the above factors on the financial position of the Group. The accompanying consolidated financial statements do not include the adjustments associated with this risk.

Further Russia's investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the follow world rating agencies: Fitch Ratings (16 August 2007: award of «BBB+» rating with "stable" outlook), Standard & Poor's (28 August 2007: award of "BBB+" rating with stable outlook).

3. Basis of Presentation

General principles

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations. The Group maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS. Accounting policies of the subsidiaries were adjusted where necessary in order to comply with accounting policies of the Group.

The Group's functional currency is the currency of the primary economic environment in which the Group companies operate. The functional currency of the Group companies incorporated in the Russian Federation is the national currency of the Russian Federation, i.e. the Russian Rouble. The functional currency of the Group companies incorporated in Austria is EURO. The functional currency of companies domiciled in Cyprus is US dollar. The Group chose US Dollar (USD) as the presentation currency of these consolidated financial statements.

The Group also prepared its consolidated financial statements in Russian Roubles. Auditor's opinion on these consolidated financial statements in Russian Roubles was issued on 20 June 2008. These consolidated financial statements are available at the principal operating office of the Group (Note 1).

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the consolidated financial statements are disclosed in Notes 3 and 4.

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year.

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations:

- 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 new 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 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;
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8 "Scope of IFRS 2" (effective for annual periods beginning on or after 1 May 2006);
- 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).

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 "Borrowing Costs" (revised in March 2007) (effective for annual periods beginning on or after 1 January 2009);
- 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 1 January 2009);

(in thousands of US Dollars)

- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008).

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application.

Reclassification

The following reclassifications have been made to the consolidated statements of income for the year ended 31 December 2006 to conform to the presentation for the year ended 31 December 2007:

	Before reclassification	Changes	After reclassification
Reclassification of advertising costs, security services, legal other services, communication costs, depreciation	Investment property operating expenses	4 046	General and administrative expenses
Reclassification of costs related to bank charges and information services	Other expenses	1 206	General and administrative expenses
Reclassification of income related to assignment agreements	Other income	531	Income from assignment agreements
Reclassification of losses on loans to customers at rates below market	Losses on loans to customers at rates below market	19	Other expenses
Reclassification of other financial costs	Other expenses	74	Interest expense
Reclassification of costs related to Unified social tax	Taxes other than income tax	4	General and administrative expenses

The following reclassifications have been made to the consolidated balance sheet for the year ended 31 December 2006 to conform to the presentation for the year ended 31 December 2007:

	Before reclassification	Changes	After reclassification
Reclassification of current tax assets for income tax	VAT recoverable	62	Current income tax asset
Reclassification of advances for property acquisition	Advances	29	Advances for property acquisition
Reclassification of capital advances under co-financing agreements	Accounts receivable	805	Capital advances
Reclassification of investments held to maturity	Other assets	116	Investments held to maturity
Reclassification of loans issued from current assets to non-current	Loans issued (current)	19	Loans issued (non-current)
Reclassification of own promissory notes issued – short-term	Borrowings (long-term)	3 285	Accounts payable (current)
Reclassification of own promissory notes issued – long-term	Borrowings (long-term)	102	Borrowings (short-term)
Reclassification of advances	Accounts receivable	2 935	Advances
Reclassification of advances received	Accounts payable (current)	5 211	Advances received
Reclassification of accounts payable and advances receivable from current to non-current	Accounts payable (current)	2 107	Accounts payable (non-current)
Reclassification of current tax liabilities for income tax	Accounts payable (current)	259	Current income tax liabilities

(in thousands of US Dollars)

The following reclassifications have been made to the consolidated statements of cash flow for the year ended 31 December 2006 to conform to the presentation for year ended 31 December 2007:

	Before reclassification	**Changes**	**After reclassification**
Reclassification of advertising costs, security services, legal other services, communication costs, depreciation	Investment property operating expenses	4 046	General and administrative expenses
Reclassification of costs related to bank charges and information services	Other expenses	1 206	General and administrative expenses
Reclassification of income related to assignment agreements	Other income	531	Income from assignment agreement
Reclassification of capitalized costs directly associated with land plots and construction in progress	Taxes other than on income tax paid	66	Net increase of land plots under development and constructions in progress
Reclassification of advances payable	Net decrease of accounts receivable	2 848	Net increase of advances
Reclassification of advances for property acquisition	Net decrease of accounts receivable	28	Net increase of advances for property acquisition
Reclassification of advances payable under construction agreements	Net decrease of accounts receivable	781	Net increase of capital advances
Reclassification of advances received	Net decrease of accounts payable	5 057	Net increase/decrease of advances received
Reclassification of own promissory notes issued	Net increase/ decrease of borrowings	3 188	Net increase of accounts payable (current)
Reclassification of investments held to maturity	Net increase of other assets	(4 176)	Purchase of investments held to maturity
Reclassification of investments held to maturity	Net increase of other assets	3 923	Repayment of investments held to maturity
Reclassification of capitalized costs directly associated with land plots and construction in progress	General and administrative expenses	549	Net increase of land plots under development and constructions in progress
Reclassification of other financial costs	Other expenses	74	Interest expense
Reclassification of costs related to state duties	Taxes expenses (other than income tax)	4	General and administrative expenses

Restatement of comparative information

The Group corrected the comparative information regarding Land plots under development and Revaluation of land plots under development of the consolidated balance sheet and Revaluation of land plots under development of the consolidated statement of changes in equity as at 31 December 2006 due to refined information received from the Independent Appraiser - Colliers International LLC.

The Group corrected the comparative information VAT recoverable in the amount of USD 502 thousands due to adjustments on VAT and capitalization of the amount of non-recoverable VAT as investment property cost.

In 2007 the Group decided to change the accounting policy in respect to capitalization of costs directly associated with construction of investment property. These changes concern the capitalization of all direct costs which could be included in costs of an asset under construction.

(in thousands of US Dollars)

Item	Amount of correction	As reported	As restated	Description
Consolidated balance sheet as at 31 December 2006				
Land plots under development and constructions in progress	633	-		Capitalization of costs directly associated with land plots under development and constructions in progress
Land plots under development and constructions in progress	(1 768)	-		Correction of fair value of land plots
Total land plots under development and constructions in progress	(1 135)	98 961	97 826	
VAT recoverable	(502)	23 932	23 430	Correction of error: including of non-recoverable VAT in investment property cost
Deferred tax assets	(26)	894	868	Capitalization of costs directly associated with land plots under development
Accounts receivable	(24)	14 647	14 623	Correction of income accrued
Deferred tax liabilities	177	-		Correction of deferred tax liability due to capitalization of additional direct costs
Deferred tax liabilities	(424)	-		Correction of deferred tax liability due to correction of fair value of land plots under development
Deferred tax liabilities	(127)	-		Correction of deferred income tax liabilities due to adjustments on VAT
Deferred tax liabilities	(40)	-		Other corrections
Total deferred tax liabilities	(414)	42 710	42 296	
Revaluation reserve for land plots under development	(1 768)	-		Correction of revaluation reserve due to correction of fair value of land plots under development
Revaluation reserve for land plots under development	424	-		Correction of deferred tax liability due to correction of fair value of land plots under development
Total revaluation reserve for land plots under development	(1 344)	11 535	10 191	
Accumulated reserve for exchange differences	184	3 092	3 276	Effect of exchange rate changes
Retained earnings	(113)	126 018	125 905	Capitalization of costs directly associated with land plots under development and construction in progress and correction of error
Consolidated statement of income for the year ended 31 December 2006				
General and administrative expenses	447	-	-	Capitalization of costs (rent of land plots) directly associated with land plots under development
General and administrative expenses	103	-	-	Capitalization of costs (staff costs) directly associated with land plots under development
Total general and administrative expenses	550	(3 060)	(2 510)	
Taxes other than income tax	66	(1 443)	(1 377)	Capitalization of costs (rent of land plots) directly associated with land plots under development

(in thousands of US Dollars)

Item	Amount of correction	As reported	As restated	Description
Income tax expense	(235)	(23 081)	(23 316)	Correction of deferred tax expense
Net gain from fair value adjustments on investment property	(494)	100 064	99 570	Correction of net gain from fair value adjustment on investment property due to adjustment on VAT

4. Summary of Accounting Policies

Consolidation

The consolidated financial statements of the Group include the Company and entities that it controls (subsidiaries).

Subsidiary undertakings (including special purpose entities, SPE) are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies.

The existence and effect of potential voting rights (stock options) that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

The results of subsidiaries acquired or disposed during the year ended 31 December 2007 are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intra-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated in full. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Capitalization of costs

The Group capitalizes costs directly associated with construction in progress within the period of real estate construction. These costs include: staff costs, land rent costs and property tax expenses accrued in accordance with the Russian legislation on land plots. These costs are recognised within cash flows from investing activities of consolidated statement of cash flow. Changes of comparative data are represented in the section above.

Accounting for acquisition of companies under common control

The Group's controlling interest in its directly held, wholly controlled and owned subsidiaries listed in Note 1 was acquired through transactions under common control, as defined in IFRS 3 "Business Combinations". Management notes that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

IFRS contain specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included at paragraphs 10 to 12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and reliable, in that the financial statements:

- represent faithfully the financial position, financial performance and cash flows of the entity;
- reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- are neutral, i.e. free from bias;

- are prudent; and
- are complete in all material respects.

In making the judgment, management shall refer to, and consider the applicability of the following sources in descending order:

- the requirements and guidance in Standards and Interpretations dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

Having considered the requirements of IAS 8 management considered appropriate to use a purchase method when dealing with the transactions in which the Group acquired its controlling interest in subsidiaries which were under common control before acquisition.

Proportionate consolidation

For the consolidation of jointly controlled entities the management of the Group has decided to use the proportionate consolidation method and to account its proportionate share of the assets, liabilities, income and expense of the jointly controlled entities based on a complete revaluation.

These consolidated financial statements of the Group include the consolidated financial statements of Marta Vermögensberatungs GmbH (MARTA) and its subsidiaries (MARTA Group).

As MARTA owns 75% of Mareal GmbH it is presumed that the investor does have significant influence. In case of MARTA and Mareal GmbH full consolidation is not applicable because the ownership of 75% does not constitute control due to contracts restricting control. Decisions exceeding the ordinary business activity require a majority of 80% of the votes. Considering the entire agreement with Euro-Billa Holding Aktiengesellschaft the management of the Group qualifies the shares in Mareal GmbH as a joint venture. Euro-Billa Holding Aktiengesellschaft, the 25% shareholder of MAREAL, has the right to appoint the managing director. MARTA has the right to appoint the chief accountant. According to Russian Law (Clause 7 of the Federal Law of the Russian Federation "On bookkeeping", November 21, 1996) a chief accountant has to approve all contracts by his signature. Considering the entire agreement the management of MARTA qualifies the shares in MAREAL as a jointly controlled entity.

The consolidation procedure for profit and loss on intragroup transactions considers the effects on income taxes as well as the recognition of deferred taxes. Intragroup balances, expenses and income as well as intragroup profits arising in companies that are included using full or proportionate consolidation are eliminated unless they are immaterial.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies of the Group, is classified as investment property.

Investment property comprises freehold land, freehold buildings and land held under operating lease.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. In this case the operating lease is accounted for as a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value.

An external, independent valuation company, having an appropriate recognized professional qualification and recent experience in the location and category of property being valued, values the investment portfolio regularly. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognized in the consolidated statement of income in the line "Net gain from fair value adjustments on investment property".

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.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of income during the period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as fixed assets, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as fixed assets and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

When an item of fixed assets is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized directly in equity as revaluation reserve if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognized in the consolidated statement of income immediately.

Land plots under development and construction in progress

Land plots under development represent land, which is in the process of development by the Group. At acquisition land plot is accounted for as investment property under development within property, plant and equipment. Management elected to follow the alternative treatment and subsequent to initial recognition at cost such land is carried at a revalued amount determined by an independent appraiser, being its fair value at the date of the revaluation. Management plans to perform revaluation of land under construction with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to the shareholders' equity as revaluation reserve for land plots under development. The increase is recognized in the consolidated statement of income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in the consolidated statement of income. The decrease shall be debited directly to the shareholders' equity under revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Construction in progress is carried at cost adjusted to reflect the Russian Rouble purchasing power as at 31 December 2002 (for investments made prior to 1 January 2003) less impairment provision, where required. Construction in progress is not depreciated until the asset is available for use.

When the construction is completed land plot and building are reclassified to investment property and accounted for according to the provisions of IAS 40 "Investment property". The final resulting difference between the fair value of completed property and its previous carrying amount is recognized in the consolidated statement of income.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditures for the development qualifying as acquisition costs are capitalized. Costs incurred on property under development are capitalized as property cost only during periods in which activities necessary to get the property ready for its intended use are in progress. Costs incurred for such items after the investment property is substantially complete and ready for its intended use are charged to expense as incurred. The capitalized costs of property are assigned to individual components of the project based on specific identification. If specific identification is not practicable, capitalized costs are based on relative value on area methods (for example, square footage) or other value methods as appropriate under the circumstances.

Capital advances

Capital advances represent amounts paid to constructor for capital construction. They are carried at cost.

Borrowing costs

Management elected to follow alternative treatment as allowed by IAS 23 "Borrowing Costs". Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Fixed assets

Premises and equipment for the Group's use are stated at acquisition cost adjusted to reflect the Russian Rouble purchasing power as at 31 December 2002 (for fixed assets acquired before 1 January 2003), less accumulated depreciation and impairment provision, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the consolidated statement of income. The estimated recoverable amount is determined as higher of an asset's net realisable value and its value in use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are included in the calculation of the Group's profit or loss for the period. Repairs and maintenance are charged to the consolidated statement of income when the expense is incurred.

Depreciation

Depreciation is charged on a straight-line basis over the following useful lives of the assets:

- Land – not depreciated;
- Buildings – from 40 to 50 years;
- Computers and office equipment – from 3 to 5 years;
- Fixtures and fittings – from 3 to 7 years;
- Leasehold improvements – over the lease term.

Software development

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets and recorded within other assets in the consolidated balance sheet. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Expenses that enhance or extend the performance of the software beyond its original specifications are recognised as capital expenditures and added to the original cost of the software. Costs of software development recognised as assets are amortised using the straight-line method over their useful lives from 3 to 10 years.

Leased assets

Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the consolidated balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are as expenses within property expenditure in the years in which they are.

Financial assets

The Group classifies its financial assets in the following categories:

- loans and receivables (this category included loans issued and deposits and account receivable);
- investments held to maturity.

The Group determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics. Subsequent reclassifications are allowed only in cases stipulated by IFRS.

In the process of applying the accounting policies for the purpose of definition of financial assets recognised in these financial statements, the management made judgments and estimates the most significant of which are presented below.

Initial recognition of financial assets

The Group recognises financial assets and financial liabilities on its balance sheet when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

Financial assets are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset.

Fair value measurement

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the balance sheet is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data, where possible. Otherwise, the fair value should be determined using the management's best estimate based on liquidity considerations and data used for models, such as correlation and volatility of long-term financial derivative instruments.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset, or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Group either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Group has transferred its rights to receive cash flows from an asset, and has neither transferred, nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement, that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration, that the Group could be required to repay.

Reclassifications

The Group shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in equity.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as available for sale.

Loans issued

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder can not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans issued are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market interest rates on similar loans in effect at origination date.

Loans issued are recorded when cash is transferred to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is charged to the consolidated statement of income in the line "Other expenses". Subsequently, the carrying amount of such loans is adjusted for amortisation of losses on origination and the related expense is recorded within the consolidated statement of income using the effective interest method in the line "Other income". The Group does not recognise gains on origination of assets at rates above market governed by the prudence concept.

A provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate on this loan.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

The Group does not acquire loans from third parties.

Investments held to maturity

This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group's management determines the appropriate classification of financial assets at the time of purchase.

The Group assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

Initially, investments held to maturity are recorded at fair value (which includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on investments held to maturity are recognised in the statement of income when such assets are impaired, as well as through the amortisation process.

If the Group sells significant portion of its portfolio of investments held to maturity before their maturity the remaining financial assets from this category shall be reclassified as financial assets available for sale.

Interest income on investments held to maturity is recognised in the statement of income within interest income.

Impairment of financial assets

The Group assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of loans issued and deposits

For amounts loans issued and deposits carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that loans issued and deposits are impaired includes observable data about one or more of the following events:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Group's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, geographical location, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of loans issued and deposits accounts representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan and deposit have variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of loans and deposits that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and deposits with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

The write-off of uncollectible loan or deposit and relating interest is justified if there are documents to prove that the borrower failed to fulfill obligations to its creditors within the period not less than one year till the date when the decision was taken to write off the liability.

(2) Impairment of investments held to maturity

The Group assesses whether objective evidence of impairment exists individually for investments held to maturity. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of income. If, in the next year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as income in the statement of income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash on current bank accounts. Amounts, which relate to funds that have restrictions on use, are excluded from cash and cash equivalents.

Financial liabilities

Financial liabilities are classified as financial liabilities measured at amortised cost.

Initially, a financial liability is measured by the Group at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated financial statements at fair value at the date of recognition.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Financial liabilities carried at amortised cost include borrowings and account payable.

Borrowings are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income of the joint venture over the period of the borrowings using the effective interest method.

Borrowings, which interest rates differ from market rates, are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar loans.

The difference between the fair value and the nominal value at origination is charged to the consolidated statement of income as losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expenses are recorded as interest expense within the consolidated statement of income using the effective yield method. The Group does not recognise gains on origination of liabilities at rates below market governed by the prudence concept.

Contingencies

Contingent assets are not recognised in the consolidated balance sheet but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated balance sheet but disclosed in the consolidated financial statements unless the possibility of any outflow in settlement is remote.

Finance lease - the Group as lessee

Leases where all the risks and rewards of ownership of the asset are substantially transferred from less or to lessee are classified as finance leases.

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property, or at the present value of the minimum lease payments, if this amount is less than the fair value of the asset. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's borrowing rate shall be used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Taxation

Income tax expense is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period. The income tax charge comprises current tax and deferred tax and is recorded in the consolidated statement of income except if it is recorded directly in equity because it relates to transactions that are also recorded, 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 or prior periods. Tax amounts are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial statement purposes.

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 carryforwards will be utilised. Deferred tax assets and liabilities are netted only within each separate company of the Group. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in the consolidated financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Group's activities. These taxes are recorded within operating expenses.

Foreign currency translation

Foreign currency transactions are translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the CBR exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the consolidated statement of income within foreign currency translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of CBR in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

At the reporting date assets and liabilities of subsidiaries, which presentation currency differs from the Group's functional currency, shall be translated at the closing rate at the date of that balance sheet, income and expenses for each statement of income shall be translated at the average rate for the reporting period. All resulting exchange differences shall be recognised as a separate component of equity.

Employee benefits and social insurance contributions

The Group pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Group's employees. These expenses are recognised as incurred and are included in staff costs. The Group does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Group's employees render the related service.

Income and expense recognition

Revenue includes rental income and service charges from properties.

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Service and management charges are recognised on a gross basis in the accounting period in which the services are rendered. When the Group is acting as an agent, the commission rather than gross income is recorded as revenue.

Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

Interest income and expense are recognised in the consolidated statement of income for all debt instruments on an accrual basis using the effective interest method based on the actual purchase price. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Accrued interest income and expense, including accrued coupon and discount, are recorded within the carrying values of the related assets and liabilities.

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

Where the property interest held under an operating lease is classified as an investment property, the property interest is accounted for as if it were a finance lease and the fair value model is used for the asset recognized.

Minimum lease payments on finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions

Provisions for legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the Group, as lessee, is contractually required to restore a leased in property to an agreed condition, prior to release by a lessor, provision is made for such costs as they are identified.

Segment reporting

The Group's activity is focused on one business segment – development and management of investment property. Therefore, no segment reporting by business segment is required. All of the Group's development business is concentrated in the Russian Federation, where the Company and its subsidiaries are located. Therefore, no segment reporting by geographical segments is reported.

5. Significant Accounting Estimates

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

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

Fair value of investment property and land plots under development

Investment property and land plots under development are stated at the fair value. The fair value is estimated by external, independent valuation company, having the appropriate recognised professional qualification. The valuation is subject to assumptions and limiting conditions. Changes in the assumptions might entail the change of the fair value of investment property and land plots under development.

Allowance for impairment of loans issued and deposits and accounts receivable and advances

The Group regularly reviews its loans issued and deposits and accounts receivable and advances to assess impairment. The management of the Group uses its professional judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans issued and deposits and accounts receivable and advances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(in thousands of US Dollars)

6. Investment Property

Below is the information on changes in carrying values of investment property:

	2007	2006
Investment property as at 1 January	**278 341**	**-**
Carrying value of investment property of acquired subsidiaries	136 125	97 567
Transfer from land plots under development and construction in progress	25 757	52 443
Transfer from capital advances	9 034	-
Transfer from fixed assets to investment property	86	-
Transfer from investment property to fixed assets	(13)	-
Net gain from fair value adjustments on investment property	73 580	99 570
Additions	-	5 785
Capital improvement of investment property	4 705	13 431
Disposal	(5 127)	-
Effect of exchange rate changes	33 301	9 545
Investment property as at 31 December	**555 789**	**278 341**

The fair value of the Group's investment property has been arrived at on the basis of valuation carried out by the independent appraiser Colliers International LLC. The valuation was arrived at by applying the income approach and sale comparison approach. Starting from 2007 the Group values the investment property on a semi-annual basis. Last valuation was carried out as at 31 December 2007, in 2006 the Group valued the investment property once as at 30 June 2006.

Below is the information on fair value of the Group's investment property:

Description of the project	Asset location	Company's name	Fair value as at 31 December 2007	Fair value as at 31 December 2006
Trade center (TC) "Park House 2"	Samara	CJSC "Mercury"	98 840	95 466
TC "Inetrcity"	Tula	"Mobil Systems" LTD	65 000	48 170
TC "Svobodniy"	Krasnoyarsk	"TC Svobodniy" LLC	65 000	38 000
TC "Park House 1"	Samara	CJSC FPK "Orbita"	22 850	21 545
TC "Svobodniy" (3th stage)	Krasnoyarsk	KrasNedvizhimost LTD	21 190	-
TC, 2th Zeleniy prospect	Moscow	"ReMa Immobilien" GmbH	21 816	-
Part of TC "Demidovsky"	Tula	"INEX" LTD	17 520	-
TC "Bryansk"	Bryansk	JSC "RTM Bryansk"	15 428	8 237
TC "Izmaylovsky"	St. Petersburg	"RTM - Izmaylovskiy" LTD	14 700	12 238
TC, Prokatnaya str.	Moscow	"ReMa Immobilien" GmbH	12 065	-
TC "Vesna", Narodnogo Opolcheniya str.	Moscow	"ReMa Immobilien" GmbH	11 956	-
TC, Krasnodarskaya str.	Moscow	"VINART" LLC	11 796	8 845
TC, Perovskaya str.	Moscow	"ReMa Immobilien" GmbH	10 373	-
TC, Volgogradsky prospect	Moscow	"ReMa Immobilien" GmbH	9 589	-
TC, Teply stan str.	Moscow	"VINART" LLC	8 879	7 041
TC, Boulevard Yana Rainisa	Moscow	"ReMa Immobilien" GmbH	8 873	-
TC, Isakovskogo str.	Moscow	"ReMa Immobilien" GmbH	8 420	-
TC, prospekt Veteranov	St. Petersburg	"FINTRADE" LLC	7 780	-
TC, 9 th Parkovaya str.	Moscow	"ReMa Immobilien" GmbH	7 773	-
TC, Shirokaya str.	Moscow	"ReMa Immobilien" GmbH	7 453	-
TC "Union", 2th Bernikov pereulok	Moscow	"ReMa Immobilien" GmbH	7 171	-
Part of TC "Kosmos", Dovatortsev str.	Stavropol	"ELEGANS" LLC	6 897	-
TC, Novocherkassky prospect	Moscow	"ReMa Immobilien" GmbH	6 529	-
TC, Zhivopisnaya str.	Moscow	"ReMa Immobilien" GmbH	6 453	-
Part of TC "Triumf", prospekt Pobedy	Kursk	CJSC "Kaskad"	6 048	4 410
TC, Beringov proyezd	Moscow	"ReMa Immobilien" GmbH	6 034	-
TC, Novomytischinsky prospect	Mytischi	"Averstrade" LLC	5 700	4 892

(in thousands of US Dollars)

Description of the project	Asset location	Company's name	Fair value as at 31 December 2007	Fair value as at 31 December 2006
Part of TC "Bumerang",prospekt Khruschova	Kursk	CJSC "Kaskad"	5 573	4 034
TC, "Blindonalds"	St. Petersburg	"VINART" LLC	4 910	-
Part of TC "Kristall", prospekt Kulakova	Kursk	CJSC "Kaskad"	4 373	2 983
TC, Generala Beloborodova str.	Moscow	"ReMa Immobilien" GmbH	4 362	-
TC, Mikhailovskaya str.	Moscow	"ReMa Immobilien" GmbH	4 327	-
TC, Malygina str.	Moscow	"PANTEKS" LLC	4 306	3 551
TC, Letchika Babushkina str.	Moscow	"ReMa Immobilien" GmbH	3 391	-
TC, Obrucheva str.	Moscow	"VINART" LLC	3 368	2 879
TC, Petrozavodskaya str.	Moscow	"PANTEKS" LLC	3 285	1 470
TC, Sibirsky trakt str.	Kazan	MP Trading LLC	3 025	1 758
TC, Khlobystova str.	Moscow	"ReMa Immobilien" GmbH	2 676	-
TC, Gvardeyskaya str.	Kazan	"KASKAD" LLC	2 553	1 788
TC, Rizhsky proyezd	Moscow	"ReMa Immobilien" GmbH	2 536	-
TC, Moskovsky prospect	Voronezh	"Dom torgovli № 1 "Era-2" LLC	2 356	1 912
TC, Said-Galeeva str.	Kazan	"KASKAD" LLC	2 290	1 885
TC, Akademika Zavoyskogo str.	Kazan	MP Trading LLC	2 156	1 894
TC, Mira str.	Kazan	MP Trading LLC	2 040	998
Part of TC "Grand",Krasnoy Armii str.	Kursk	CJSC "Kaskad"	1 909	1 126
TC, Gagarina str.	Kazan	"ELKO SYSTEMS" LLC	1 685	1 113
TC, Kolomenskaya str.	Moscow	"PANTEKS" LLC	1 640	1 467
TC, Akademika Glushko str.	Kazan	MP Trading LLC	895	639
Total investment property			**555 789**	**278 341**

On 7 November 2007 a part of the investment property TC "Park House 2" (Samara) was sold by the Group to OOO "Planeta Razvlechenij". The financial result from investment property sold in amount of USD 2 247 thousand is reflected in consolidated statement of income in the line "Income from sale of investment property".

As at 15 December 2007 the Group sold the investment property and fixed assets in Vienna, Austria.

The information about pledged assets is presented in Note 34.

(in thousands of US Dollars)

7. Land Plots under Development and Construction in Progress

Below is the information on changes in land plots under development and construction in progress for the years ended 31 December 2007 and 31 December 2006:

	Land plots under development	Construction in progress	Total
Balance as at 1 January 2006	**-**	**-**	**-**
Carrying value of land plots under development and construction in progress of acquired subsidiaries	25 796	59 532	85 328
Additions	342	42 515	42 857
Interest expense capitalised	-	9 650	9 650
Other direct costs capitalised	-	633	633
Revaluation	13 012	-	13 012
Transfer to investment property	-	(52 443)	(52 443)
Sale of construction in progress	-	(7)	(7)
Effect of exchange rate changes	(2 236)	1 032	(1 204)
Balance as at 1 January 2007	**36 914**	**60 912**	**97 826**
Carrying value of land plots under development and construction in progress of acquired subsidiaries	-	1 500	1 500
Additions	260	-	260
Capital expenditures	-	38 650	38 650
Interest expense capitalised	-	3 265	3 265
Other direct costs capitalised	-	3 441	3 441
Revaluation	7 126	-	7 126
Transfer to investment property	-	(25 757)	(25 757)
Sale of construction in progress	-	(3 153)	(3 153)
Cancellation of construction agreement	-	(787)	(787)
Effect of exchange rate changes	2 979	5 130	8 109
Balance as at 31 December 2007	**47 279**	**83 201**	**130 480**

In May 2007 the Group wrote off the works accepted in 2006 in the amount of USD 787 thousand as a result of cancellation of agency contract. Payment for works in the amount of USD 787 thousand has been returned to the Group.

On 22 October 2007 the Group acquired a plot located in Lipetsk (Tereshkovoi str, bldg 35/B) for the construction of trading center for the amount of USD 260 thousand.

Land plots under development are stated at revalued amount determined by independent appraiser Colliers International LLC by applying the income approach and sales comparison approach. Starting from 2007 the Group values the land plots under development on a semi-annual basis. Last valuation was carried out as at 31 December 2007, in 2006 the Group valued the land plots under development once as at 30 June 2006.

Construction in progress is recognised at cost.

(in thousands of US Dollars)

Below is the information on Group's investment projects under construction:

Description of the project	Asset location	Company's name	Carrying value as at 31 December 2007	Carrying value as at 31 December 2006
Office centre, N.Krasnoselskaya str.	Moscow	"ExpoTekh" LLC	28 973	21 634
TC Gallery "Odintsovo"	Odintsovo district, Lokhino village	"RTM Odintsovo" LTD	26 645	16 112
TC "Dunayskaya perpspektiva", M. Balkanskaya str.	St. Petersburg	OOO "Romex – invest"	19 849	6 251
TC, Fizkulturnaya str.	Samara	"RTM – Samara" LTD	19 011	17 492
TC, Tereshkovoy str.	Lipetsk	"RTM Lipetsk" LTD	18 476	3 836
TC, "Kushelevka"	St. Petersburg	OOO "Markon"	17 192	7 828
TC "Svobodniy" (5th construction stage)	Krasnoyarsk	"TC Svobodniy" LLC	334	181
Part of TC "Demidovsky"	Tula	"Tula Rekonstruksiya" LTD	-	21 446
TC "Blindonalds"	St. Petersburg	"VINART" LLC	-	3 000
Part of TC "Kosmos", Dovatortsev str.	Stavropol	"ELEGANS" LLC	-	46
Total land plots under development and construction in progress			**130 480**	**97 826**

The information about pledged assets is presented in Note 34.

8. Capital Advances

Description of the project	Company's name	31 December 2007	31 December 2006
Capital advances under co-financing agreements			
TC, Lenina str., Kursk	CJSC "Kaskad"	3 832	3 574
TC, Prospekt Veteranov, St.Petersburg	"FINTRADE" LLC	-	4 868
Part of TC "Kosmos", Dovatortsev str., Stavropol	"ELEGANS" LLC	-	2 396
Total capital advances under co-financing agreements		**3 832**	**10 838**
Capital advances to constructors			
TC "Gallery Odintsovo", Odintsovo district, Lokhino village	"RTM Odintsovo" LTD	13 119	5 835
TC "Dunayskaya perpspektiva", M. Balkanskaya str., St.Petersburg	OOO "Romex – invest"	5 367	102
TC, Tereshkovoi str., Lipetsk	"RTM Lipetsk" LTD	4 410	1 246
TC, Fizkulturnaya str., Samara	"RTM – Samara" LTD	3 884	377
Office center, N.Krasnoselskaya str., Moscow	"ExpoTekh" LLC	193	-
TC "Svobodniy" (5th construction stage), Krasnoyrsk	"TC Svobodniy" LLC	171	-
TC "Kushelevka", St. Petersburg	OOO "Markon"	94	230
TC "Park House 2", Samara	CJSC "Mercury"	-	540
Part of TC "Demidovsky", Tula	"Tula Rekonstruksiya" LTD	-	147
TC "Park House 1", Samara	CJSC FPK "Orbita"	-	211
Less: provision for impairment of capital advances		-	(104)
Total capital advances to constructors		**27 238**	**8 584**
Total capital advances		**31 070**	**19 422**

The Group is an investor in several construction projects. The ownership of the construction projects will be transferred to the Group when the construction completed and the state registration of the real estate obtained.

During the year ended 31 December 2006 a 100% provision for impairment of capital advances was created in respect of to the agency agreement concluded between CJSC FPK "Orbita" and LLC "Vremya" in the amount of USD 104 thousand. As at 31 December 2007 the provision was recovered due to the repayment by LLC "Vremya" of its liabilities.

(in thousands of US Dollars)

Movements in the provision for capital advances are as follows:

	Note	2007	2006
Provision for impairment of capital advances as at 1 January		**104**	**-**
Change in provision for impairment of capital advances during the reporting period	26	(108)	101
Effect of exchange rate changes		4	3
Provision for impairment of capital advances as at 31 December		**-**	**104**

The information about pledged assets is presented in Note 34.

9. Loans Issued and Deposits

	31 December 2007	31 December 2006
Non-current loans issued and deposits		
Loans issued	-	30 186
Total non-current loans issued and deposits	**-**	**30 186**
Current loans issued and deposits		
Bank deposits	5 405	-
Loans issued	2 291	26 674
Less: provision for impairment of loans issued and deposits	-	(179)
Total current loans issued and deposits	**7 696**	**26 495**
Total loans issued and deposits	**7 696**	**56 681**

As at 31 December 2007 bank deposits at the amount of USD 3 331 thousand (equivalent of RUR 81 762 thousand) placed in Commercial Bank "Transportny" at the fixed rate of 11% per annum in RUR.

Bank deposit represents the amount of USD 2 074 (equivalent of RUR 50 900 thousand) placed in CJSC "Svyaz bank" at fixed rate of 4.8 % per annum in RUR.

Interest rates on loans issued to legal entities varied from 0.0% to 20.0% per annum (2006: 0.1% to 24.7% per annum).

During the year ended 31 December 2006 a 100% provision was created for impairment of overdue loan principal debt and interest on loan in the amount of USD 179 thousands issued by CJSC "Mercury" to LLC "Vremya". As at 31 December 2007 the provision was recovered due to repayment made by LLC "Vremya".

Movements in the provision for impairment of short-term loans issued to legal entities are as follows:

	Note	2007	2006
Provision for impairment of loans issued and deposits as at 1 January		**179**	**-**
Change in provision for impairment of loans issued and deposits during the reporting period	26	(184)	174
Effect of exchange rate changes		5	5
Provision for impairment of loans issued and deposits as at 31 December		**-**	**179**

As at 31 December 2007 and 31 December 2006 the deposits and loans are not collateralised.

Below is a credit quality analysis of short-term loans issued and deposits as at 31 December 2007:

	Current and unimpaired	Individually impaired	Total
Bank deposits	5 405	-	5 405
Loans issued	2 291	-	2 291
Less: provision for impairment of loans issued	-	-	-
Total loans issued and deposits	**7 696**	**-**	**7 696**

(in thousands of US Dollars)

As at 31 December 2006 all long-term loans classified by credit quality as current and unimpaired

Below is a credit quality analysis of short-term loans issued and deposits as at 31 December 2006:

	Current and unimpaired	Individually impaired	Total
Loans issued	26 495	179	26 674
Less: provision for impairment of loans issued	-	(179)	(179)
Total current loans issued and deposits	**26 495**	**-**	**26 495**

As at 31 December 2006 an individually impaired of deposits and loans issued are overdue for the period from 6 months to 1 year with provision for impairment amounting to 100 %. These loans issued to third parties.

The current portion of loans issued and deposits does not contain the balances restructured in 2006 or 2007.

There are no renegotiated in 2006 and 2007 balances representing the carrying amount of loans issued and deposits that would otherwise be past due whose terms have been renegotiated. .

Loans to related parties are disclosed in Note 30.

The information about pledged assets is presented in Note 34.

10. Cash and Cash Equivalents

	31 December 2007	31 December 2006
Cash in banks	43 786	2 332
Cash on hand	62	8
Total cash and cash equivalents	**43 848**	**2 340**

11. Accounts Receivable

	31 December 2007	31 December 2006
Rental receivables	6 730	1 198
Receivables on agency agreement	2 060	-
Receivables on assignment contracts	1 492	8 727
Receivables on agency agreements with tenants	831	-
Receivables on investment property sale	703	-
Receivables on utilities reimbursable by tenants	492	551
Receivables due from employees	122	28
Other	673	454
Less: provision for impairment of accounts receivable	(700)	(104)
Total accounts receivable	**12 403**	**10 854**

The Group is an agent according to the agency agreement with "Dialog" CJSC and furnish a financial assistance to hockey club on behalf of the Group but at the expense of principal ("Dialog" CJSC).

(in thousands of US Dollars)

Movement in the provision for impairment of accounts receivable for 2007 and 2006 are as follows:

	Note	Rental receivables	Receivables on assignment contracts	Receivables on utilities reimbursable by tenants	Other	Total
Provision for impairment of accounts receivable as at 1 January 2006		**-**	**-**	**-**	**-**	**-**
Change in provision for impairment of accounts receivable during the reporting period	26	-	-	101	-	101
Effect of exchange rate changes				3		3
Provision for impairment of accounts receivable as at 31 December 2006		**-**	**-**	**104**	**-**	**104**
Provision for impairment of accounts receivable of acquired subsidiaries		48	-	-	-	48
Change in provision for impairment of accounts receivable during the reporting period	26	482	64	(27)	13	532
Receivables written-down as uncollectible		-	-	(7)	-	(7)
Effect of exchange rate changes		21	3	(2)	1	23
Provision for impairment of accounts receivable as at 31 December 2007		**551**	**67**	**68**	**14**	**700**

As at 31 December 2007 and 31 December 2006 the accounts receivable are not collateralised.

Below is a credit quality analysis of current accounts receivable in respect of credit quality as at 31 December 2007:

	Current and unimpaired	Individually impaired and overdue but not impaired	Total
Accounts Receivable			
Rental receivables	5 953	777	6 730
Receivables on agency agreement	2 060	-	2 060
Receivables on assignment contracts	1 359	133	1 492
Receivables on agency agreements with tenants	831	-	831
Receivables on utilities reimbursable by tenants	435	57	492
Receivables due from employees	122	-	122
Other	1 362	14	1 376
Less: provision for impairment of accounts receivable	-	(700)	(700)
Total accounts receivable	**12 122**	**281**	**12 403**

Below is an analysis of individually impaired and overdue but not impaired accounts receivable as at 31 December 2007:

	Overdue					
	Less 1 month	From 1 month to 6 months	From 6 months to 1 year	From 1 year to 5 years	More then 5 years	Total
Accounts Receivable						
Rental receivables	571	84	61	61	-	777
Receivables on assignment contracts	-	133	-	-	-	133
Receivables on utilities reimbursable by tenants	-	-	16	-	41	57
Other	-	-	11	3	-	14
Less: provision for impairment of accounts receivable	(470)	(66)	(59)	(64)	(41)	(700)
Total of impairment accounts receivable	**101**	**151**	**29**	**-**	**-**	**281**

As at 31 December 2007 the overdue accounts receivable the amount 196 USD thousand is not impaired. These accounts receivable has an overdue time period from 1 day to 1 year. The management of the Group considered that these accounts receivable don't have characteristics of impairment.

Below is a credit quality analysis of current accounts receivable in respect of credit quality as at 31 December 2006:

(in thousands of US Dollars)

	Current and unimpaired	Individually impaired and overdue but not impaired	Total
Accounts Receivable			
Rental receivables	1 194	4	1 198
Receivables on assignment contracts	8 727	-	8 727
Receivables on utilities reimbursable by tenants	451	100	551
Receivables due from employees	28	-	28
Other	452	2	454
Less: provision for impairment of accounts receivable	-	(104)	(104)
Total accounts receivable	**10 852**	**2**	**10 854**

Below is an analysis of individually impaired and overdue but not impaired accounts receivable as at 31 December 2006:

	Overdue					
	Less 1 month	**From 1 month to 6 months**	**From 6 months to 1 year**	**From 1 year to 5 years**	**More then 5 years**	**Total**
Accounts Receivable						
Rental receivables	-	-	-	4	-	4
Receivables on utilities reimbursable by tenants	-	-	55	-	45	100
Other	2	-	-	-	-	2
Less: provision for impairment of accounts receivable	-	-	(55)	(4)	(45)	(104)
Total of impairment accounts receivable	**2**	**-**	**-**	**-**	**-**	**2**

As at 31 December 2006 the overdue accounts receivable the amount 2 USD thousand is not impaired. These accounts receivable has an overdue time period less 1 month. The management of the Group considered that these accounts receivable don't have characteristics of impairment.

There are no renegotiated in 2006 and 2007 balances representing the carrying amount of accounts receivable that would otherwise be past due whose terms have been renegotiated.

The receivables of related parties are disclosed in Note 30.

12. Advances

	31 December 2007	31 December 2006
Advances paid under services agreements	1 906	2 796
Advances paid under lease agreements	1 695	34
Advances paid for utilities agreements	623	8
Other	159	259
Less: provision for impairment of advances	(204)	(162)
Total advances	**4 179**	**2 935**

(in thousands of US Dollars)

Movements in the provision for impairment of advances for 2007 and 2006 are as follows:

	Note	Advances paid under services agreements	Advances paid under utilities agreements	Other	Total
Provision for impairment of advances as at 1 January 2006		**-**	**-**	**-**	**-**
Change in provision for impartment of advavces during the period	26	157	-	-	157
Effect of exchange rate changes		5	-	-	5
Provision for impairment of advances as at 31 December 2006		**162**	**-**	**-**	**162**
Change in provision for impartment of advavces during the period	26	(67)	7	89	29
Effect of exchange rate changes		-	-	13	13
Provision for impairment of advances as at 31 December 2007		**95**	**7**	**102**	**204**

13. Investments Held to Maturity

	31 December 2007	31 December 2006
Bank's bills of exchange	5 787	4
Promissory notes of commercial organisations	1 127	1 045
Less: provision for impairment of investments held to maturity	(645)	(933)
Total investments held to maturity	**6 269**	**116**

As at 31 December 2007 investments held to maturity include bills of exchange of Commercial Bank "Transportny" (limited company) (USD 5 787 thousand).

As at 31 December 2007 and 2006 investments held to maturity also included promissory notes issued by Diakom LLC and promissory notes issued by Vintens LLC. As at 31 December 2007 the 100% provision for impairment of investments held to maturity was created in respect to these promissory notes.

Movements of investments held to maturity are as follows:

	2007	2006
Carrying value as at 1 January	**1 049**	**-**
Investments held to maturity of acquired subsidiaries	-	638
Purchase	35 337	4 176
Repayment	(29 915)	(3 923)
Interest income accrued	999	92
Interest income received	(860)	-
Effect of exchange rate changes	304	66
Carrying value as at 31 December	**6 914**	**1 049**

Movements in the provision for impairment of promissory note issued by commercial organisations held to maturity are as follows:

	Note	2007	2006
Provision for impairment of investments held to maturity as at 1 January		**933**	**-**
Change in provision for impairment of investments held to maturity during the reporting period	26	(341)	904
Effect of exchange rate changes		53	29
Provision for impairment of investments held to maturity as at 31 December		**645**	**933**

(in thousands of US Dollars)

Below is a credit quality analysis of investments held to maturity in respect of credit quality as at 31 December 2007:

	Current and unimpaired	Individually impaired	Total
Bank's bills of exchange	5 787	-	5 787
Promissory notes of commercial organisations	482	645	1 127
Less: provision for impairment of investments held to maturity	-	(645)	(645)
Total investments held to maturity	**6 269**	**-**	**6 269**

As at 31 December 2007 investments held to maturity are overdue for the period from 1 year to 5 years with provision for impairment amounting to 100 %.

Below is a credit quality analysis of investments held to maturity in respect of credit quality as at 31 December 2006**:**

	Current and unimpaired	Individually impaired	Total
Bank's bills of exchange	4	-	4
Promissory notes of commercial organisations	112	933	1 045
Less: provision for impairment of investments held to maturity	-	(933)	(933)
Total investments held to maturity	**116**	**-**	**116**

As at 31 December 2006 investments held to maturity are overdue for the period from 1 to 6 months with provision for impairment amounting to 100 %.

The information about pledged assets is presented in Note 34.

14. Disposal groups classified as held for sales

On 26 June 2007 management of the Group came to a decision to sell 100% share capital of "TEKHOSOFT" LLC. As at 31 December 2007 the Group classified "TEKHOSOFT" LLC as assets included in disposal groups classified as "held for sales" as all necessary conditions for recognition are met.

	31 December 2007
Assets included in disposal groups classified as held for sale	
Capital advances	6 812
VAT recoverable	45
Cash and cash equivalents	3
Total assets included in disposal groups classified as held for sale	**6 860**
Liabilities included in disposal groups classified as held for sale	**1**
Discontunued activities	
Expenses from discontunued activities	(62)
Expenses from VAT related to discontunued activities	-
Total losses from discontunued activities after taxation	**(62)**

(in thousands of US Dollars)

15. Borrowings

	31 December 2007	31 December 2006
Borrowings from banks		
Long-term borrowings from banks	173 761	138 456
Short-term borrowings from banks	100 523	37 456
Total borrowings from banks	**274 284**	**175 912**
Borrowings from commercial organisations		
Long-term borrowings from commercial organisations	56 398	15 073
Short-term borrowings from commercial organisations	27 051	53 938
Total borrowings from commercial organisations	**83 449**	**69 011**
Long-term borrowings	**230 159**	**153 529**
Short-term borrowings	**127 574**	**91 394**
Total borrowings	**357 733**	**244 923**

Interest rates on rouble borrowings from banks ranged from 10% to 16% per annum (2006: from 11% to 18% per annum). Interest rates on borrowings from banks in USD were between 11% and 18% per annum (2006: from 11% to 17% per annum). Floating interest rate on borrowings from banks in USD was linked to LIBOR (3 m LIBOR + 7.5 %).

Interest rates on rouble borrowings from commercial organisations ranged from 0% to 17% per annum (2006: 0% to 14% per annum) and on USD-denominated borrowings from commercial organisations were at the rate between 12% and 15% per annum (2006: 0% and 13% per annum).

The terms of repayment of the borrowings received from banks were revised after 31 December 2007. The information on the borrowings revised is provided below:

					Initial contract's terms		Revised contract's terms	
Company of the Group	**Name of the Borrower**	**Date of disbursement**	**Currency**	**Balance as at 31 December 2007**	**Maturity date**	**Interest rate**	**Maturity date**	**Interes rate**
OAO RTM	JSC Sviaz-bank	14.09.2007	RUR	20 370	08.04.2008	13%	06.10.2008	13%
"VINART" LLC	OJSC Impexbank	06.04.2006	USD	6 500	12.04.2008	14%	29.08.2008	14%
"ExpoTekh" LLC	OJSC Rossia	05.04.2006	RUR	4 563	03.04.2008	11%	09.05.2009	18%
Total				**31 433**				

The information about pledged assets is presented in Note 34.

(in thousands of US Dollars)

16. Accounts Payable

	31 December 2007	31 December 2006
Non-current accounts payable		
Guarantee payments received from lessees	3 816	2 107
Finance leases payable	495	73
Other	11	-
Payable for property acquisition	-	9 551
Total non-current accounts payable	**4 322**	**11 731**
Current accounts payable		
Payable for property acquisition	3 996	3 759
Payables including maintenance, utilities and management of shopping centers	3 411	7 240
Taxes payable other than income tax	2 518	1 068
Payable for promissory notes	1 785	-
Wages and salaries payable	1 018	225
Guarantee payments received from lessees	673	174
Payable for financial transactions (assignment)	523	38 217
Operating leases payable	128	217
Other	1 565	481
Total current accounts payable	**15 617**	**51 381**
Total accounts payable	**19 939**	**63 112**

17. Advances received

	31 December 2007	31 December 2006
Advances received from lessees	4 333	1 475
Advances received from investors (co-investors) for real estate development	-	3 664
Other	3	72
Total advances received	**4 336**	**5 211**

18. Share Capital

As at 31 December 2007 authorised, issued and fully paid share capital of the Group's shareholders amounted to USD 5 thousand (31 December 2006: USD 4 thousand).

	31 December 2007			31 December 2006		
	Number of shares	Nominal value (in USD)	Total share capital (in USD)	Number of shares	Nominal value (in USD)	Total share capital (in USD)
Ordinary shares	140 000 000	0.00004	5 423	100 000 000	0.00004	3 798
Purchase of own shares	345 000	0.00004	14	-	-	-
Total share capital	**139 655 000**	**0.00004**	**5 409**	**100 000 000**	**0.00004**	**3 798**

On 22 January 2007 the issuance of 40 000 000 ordinary shares in the share capital of OAO RTM was registered by the Federal Financial Markets Service of the Russian Federation (FFMS) under registration number 1-01-11658-A-001D.

SHM Limited acted as a selling shareholder during the Initial Public Offering of the Company. The offering consisted of 34 782 610 ordinary shares in the share capital of OAO RTM, each share with a nominal value of RUR 0.001 per share, offered in the form of shares and global depositary receipts (GDRs), representing 25.8 percent of the company's enlarged share capital of the Company. Offering price was set at USD 2.30 for each ordinary share and at USD 11.50 per each GDR with each GDR representing five ordinary shares.

The unlisted GDRs have been offered by the selling shareholder to investors outside Russia and the United States, the ordinary shares, to be listed on the Russian Trading System exchange, offered to Russian investors and non-U.S. institutions.

(in thousands of US Dollars)

On 5 June 2007 the selling shareholder received consideration from the Initial Public Offering in the amount of USD 76 417 thousand (equivalent of RUR 1 978 660 thousand).

SHM Limited has granted ING N.V., London Branch (ING or the Lead Manager), an option (the Over-Allotment Option) exercisable until 30 days after the publication of the Offering Memorandum to purchase or procure purchasers for up to 5 217 390 additional shares in the form of additional GDRs at the offered price referred to above. ING has exercised the option and purchased 5 217 390 additional shares in the form of additional GDRs on 22 June 2007. The net proceed from the over-allotment option is amounted to USD 11 463 thousand (equivalent of RUR 297 675 thousand).

As the result of the Initial Public Offering 40 000 000 shares have been placed, representing 28.6 percent of the enlarged share capital of the Company. Net consideration received from the Initial Public Offering amounted to USD 87 880 thousand (equivalent of RUR 2 276 335 thousand). On 2 August 2007 the results of the Initial public offering (the IPO) of the Company were registered by the Federal Service on Financial Markets of Russia.

On 22 November 2007 OAO RTM reacquired 345 000 treasure shares at the price of USD 2.69 (RUR 65.48) per share.

19. Share Premium

Share premium as at 31 December 2007 and 31 December 2006 consisted of the following:

	Issue of share capital	Legal and consulting services	Shareholder's contribution	Total
Share premium as at 31 December 2006	**-**	**-**	**-**	**-**
Issue of new shares	87 880	(769)	-	87 111
Shareholder's contribution to the subsidiaries' charter capitals	-	-	18 056	18 056
Share premium as at 31 December 2007	**87 880**	**(769)**	**18 056**	**105 167**

Shareholders' contributions to the subsidiaries' charter capital in the amount of USD 18 056 thousands were recognized as the result of the decision made by beneficiary owners of the Group on 27 September 2007. Before 3rd quarter 2007 this amount represented the accounts payable and borrowings due to related parties of the Group.

20. Revaluation Reserve for Land Plots under Development

	2007	2006
Revaluation reserve for land plots under development as at 1 January	**10 191**	**-**
Revaluation surplus on land	7 126	13 012
Deferred tax liabilities arising on revaluation of land	(1 710)	(3 123)
Effect of exchange rate changes	963	302
Revaluation reserve for land plots under development as at 31 December	**16 570**	**10 191**

21. Minority Interest

	2007	2006
Minority interest as at 1 January	**2 519**	**-**
Share in net profit	177	2 348
Decrease of minority interest due to piecemeal acquisition of subsidiaries	(2 696)	-
Acquisition of subsidiaries	-	171
Minority interest as at 31 December	**-**	**2 519**

During the year ended 31 December 2007 the Group acquired additional 49% interest in the charter capital of "PANTEKS" LLC and 1% stakes in the charter capital of the following subsidiaries: "RTM Odintsovo" LTD, "INEX" LTD, "Tula Rekonstruksiya" LTD, "VINART" LLC and 10% stakes in "RTM Lipetsk" LTD. As a result, the Group's stake in these companies increased to 100%.

(in thousands of US Dollars)

22. Revenue from Investment Property

	2007	2006
Rental income and reimbursement of utilities by tenants	56 600	15 734
Revenue from services related to management and maintenance of investment property	2 022	156
Total revenue from investment property	**58 622**	**15 890**

23. Investment Property Operating Expenses

	2007	2006
Utilities costs	3 936	1 385
Maintenance of investment property	3 896	901
Expenses for the projects management	1 125	1 615
Repair of investment property	1 304	1 183
Total investment property operating expenses	**10 261**	**5 084**

24. General and Administrative Expenses

	2007	2006
Staff costs	4 386	1 180
Audit, consultancy and appraisal fee	3 827	390
Security and other professional services	1 723	1 303
Rent costs	1 544	939
Marketing and advertising costs	1 164	1 084
Bank charges	492	658
Communication costs	458	290
Supplies	450	233
Depreciation of fixed assets	437	184
Insurance	267	109
Utilities costs related to owner's occupied properties	232	275
Information costs and subscription	187	74
Travel costs	175	95
Legal services	127	402
Other	582	550
Total general and administrative expenses	**16 051**	**7 766**

25. Interest Income and Interest Expense

	2007	2006
Interest income		
Interest income on deposits and loans issued	3 273	1 636
Interest income on investments held to maturity	999	92
Total interest income	**4 272**	**1 728**
Interest expense		
Interest expenses on loans from banks	(24 672)	(7 607)
Interest expenses on loans from commercial organizations	(7 937)	(3 182)
Other finance costs	(2 150)	(301)
Finance lease costs	(77)	(52)
Total interest expense	**(34 836)**	**(11 142)**
Net interest expense	**(30 564)**	**(9 414)**

(in thousands of US Dollars)

26. Provisions for Impairment

	Note	2007	2006
Change in provision for impairment of capital advances	8	108	(101)
Change in provision for impairment of loans issued and deposits	9	184	(174)
Change in provision for impairment of accounts receivable	11	(532)	(101)
Change in provision for impairment of advances	12	(29)	(157)
Change in provision for impairment of investments held to maturity	13	341	(904)
Total provision for impairment		**72**	**(1 437)**

27. Other Income and Other Expenses

	2007	2006
Income from operations with property rights	368	-
Gains less losses from assets sales	279	168
Fines and penalties	107	162
Depreciation of losses on origination of assets at rates below market	26	-
Other income	289	750
Total other income	**1 069**	**1 080**
VAT non-recoverable	(1 230)	(89)
Fines and penalties	(517)	(94)
Other consultancy fees	(441)	-
Losses arising from transactions with derivatives financial instruments	(212)	-
State duties	(132)	(30)
Losses on loans issued at rates below market	(3)	(20)
Other expense	(53)	(376)
Total other expense	**(2 588)**	**(609)**
Net other (expense) / income	**(1 519)**	**471**

Non-recoverable VAT in the amount of USD 1 230 thousands is considered as expense due to incorrectly executed supporting documentation.

28. Income Tax

Income tax expense comprises the following:

	2007	2006
Current tax expense	3 040	674
Deferred taxation movement	25 309	25 765
Deferred taxation charged directly to equity	(1 710)	(3 123)
Income tax expense for the reporting period	**26 639**	**23 316**

The income tax rate in Russia applicable to the majority of the Group's income is 24% (2006: 24%). The income tax rate applicable for companies incorporated in Austria is 25%. The corporate tax rate in Cyprus is 10%.

Reconciliation between the expected and the actual taxation charge is provided below:

	2007	2006
IFRS profit before taxation	**142 320**	**151 569**
Theoretical tax charge at the rate of 24%	34 157	36 376
Not taxable income from write-off of excess of acquirer's interest in the net fair value of acquiree's net assets over cost arising on acquisition of subsidiaries	(13 828)	(12 768)
Profit taxed at different rates in other jurisdictions	244	-
Non-deductible expenses less non-taxable income	6 066	(292)
Income tax expense for the period	**26 639**	**23 316**

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for consolidated financial statement purposes and for the Group profits tax purposes. The tax effect of the movement on these temporary differences is recorded at applicable rate.

(in thousands of US Dollars)

	As at 31 December 2007	Effect of exchange rate changes	Movement	Acquisitions of subsidiaries	As at 31 December 2006
Tax effect of deductible temporary differences					
Investment property	3 160	129	2 864	-	167
Net loss from fair value adjustments on investment property	852	33	819	-	-
Accounts payable and advances received	659	42	(288)	11	894
Accounts receivable and advances	788	61	114	-	613
Provisions for impairment	406	45	(19)	26	354
Construction in progress	128	25	(545)	-	648
Fixed assets	33	1	29	-	3
Investments held to maturity	9	-	9	-	-
Borrowings	5	-	(6)	-	11
Other assets	88	5	33	-	50
Capital advances	-	2	(99)	-	97
Loans issued	-	-	(9)	-	9
Gross deferred tax assets	**6 128**	**343**	**2 902**	**37**	**2 846**
Tax effect of taxable temporary differences					
Net gain from fair value adjustments on investment property	(74 801)	(4 292)	(18 478)	(16 557)	(35 474)
Revaluations reserve for land plots under development	(8 862)	(551)	(1 710)	-	(6 601)
Investment property	(5 953)	(253)	(4 866)	(123)	(711)
Constructions in progress	(4 571)	(223)	(2 924)	-	(1 424)
Borrowings	(275)	(18)	(19)	(238)	-
Accounts receivable and advances	(34)	(2)	(14)	-	(18)
Fixed assets	(34)	(4)	50	(9)	(71)
Accounts payable and advances received	(19)	(1)	(18)	-	-
Loans issued	-	-	3	-	(3)
Other assets	(212)	(5)	(235)	-	28
Gross deferred tax liabilities	**(94 761)**	**(5 349)**	**(28 211)**	**(16 927)**	**(44 274)**
Net deferred tax liabilities	**(88 633)**	**(5 006)**	**(25 309)**	**(16 890)**	**(41 428)**
Deferred tax assets	688	(3 119)	2 902	37	868
Deferred tax liabilities	(89 321)	(1 887)	(28 211)	(16 927)	(42 296)

For the year ended 31 December 2007 deferred tax liability in the amount of USD 1 710 thousand arising from temporary differences on land plots under development is recorded in statement of charges in equity on line "Revaluation reserve for land plots under development" (31 December 2006: USD 3 123 thousand).

Considering the existing structure of the Group, tax losses and current tax assets of different entities cannot be offset against current tax liabilities and taxable profit and, respectively, taxes may be accrued even despite the net consolidated tax loss. Therefore, the Group does not offset deferred tax assets of one entity against the deferred tax liability of another entity.

Management believes that the Group is in compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

29. Earning per Share

Basic earnings per share are calculated by dividing the profit by the weighted average number of ordinary shares during the year less average number of ordinary shares bought out by the Group from its shareholders.

The Group has no outstanding financial instruments which dilute basic earnings per share. Thus, the diluted earnings per share are equal to basic earnings per share.

(in thousands of US Dollars)

	31 December 2007	31 December 2006
Net profit attributable to shareholders of the parent company (thousands of US Dollars)	115 442	125 905
Weighted average number of ordinary shares in issue (thousands)	122 733	-
Basic and diluted earnings per share (USD dollars per share)	**0.9**	**-**

The Company changed its legal status from limited liability company to open joint stock company on 14 August 2006. Therefore, no earnings per share for the year ended 31 December 2006 were calculated. On 27 March 2007 the Company's shares were included in the quotation list "B" of Russian Trading System. The Initial public offering (the IPO) of the Company took place on May 2007. Since 25 October 2007 ordinary shares were included in non-listed stock of Moscow Interbank Currency Exchange (MICEX).

30. Related Party Transactions

In the normal course of business the Group enters into transactions with its major participants, directors and other related parties. These transactions include settlements, issuance of loans and borrowings receipt.

The Group had the following transactions outstanding with related parties as at 31 December 2007 and 31 December 2006.

	31 December 2007	Movements	31 December 2006
Accounts payable and advances received	3 054	(32 592)	35 646
Borrowings	26 679	2 533	24 146
Loans issued and deposits	2 088	(11 308)	13 396
Accounts receivable and advances	47 890	39 636	8 254

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

	2007	2006
Revenue from investment property	10 295	694
Investment property operating expenses	96	-
Interest income	1 892	857
Interest expenses	3 071	2 267
Other expenses	670	-
Other income	371	59

The compensation paid to the key management personnel totalled USD 600 thousand for year ended 31 December 2007 (for the year ended 31 December 2006: USD 142 thousand).

31. Financial Risk Management

Currency risk

The Group accepted risk in connection with influence of foreign exchange movement to money flows and its financial statements. The table below shows an analysis of currency risk of the Group in respect of financial assets and liabilities associated with currency risk as at 31 December 2007. Financial assets and liabilities of the Group are shown below by basic currencies according to carrying value.

(in thousands of US Dollars)

	RUR	USD	EUR	Other currencies	Total
Assets associated with currency risk					
Cash and cash equivalents	43 848	-	-	-	43 848
Loans issued and deposits	7 609	-	87	-	7 696
Accounts receivable	10 661	735	1 005	2	12 403
Investments held to maturity	6 269	-	-	-	6 269
Current income tax asset	799	-	-	-	799
Other assets	1 411	-	-	-	1 411
Total assets exposed to currency risk	**70 597**	**735**	**1 092**	**2**	**72 426**
Liabilities associated with currency risk					
Borrowings	81 977	232 451	43 305	-	357 733
Accounts payable	16 285	2 382	1 272	-	19 939
Current income tax liabilities	304	-	-	-	304
Total liabilities exposed to currency risk	**98 566**	**234 833**	**44 577**	**-**	**377 976**
Net balance sheet position exposed to currency risk	**(27 969)**	**(234 098)**	**(43 485)**	**2**	**(305 550)**

As at 31 December 2006 the balance sheet item of the Group by currencies is shown below:

	RUR	USD	EUR	Other currencies	Total
Assets associated with currency risk					
Cash and cash equivalents	2 340	-	-	-	2 340
Loans issued and deposits	55 182	1 499	-	-	56 681
Accounts receivable	10 467	387	-	-	10 854
Investments held to maturity	116	-	-	-	116
Current income tax asset	62	-	-	-	62
Other assets	88	-	-	-	88
Total assets exposed to currency risk	**68 255**	**1 886**	**-**	**-**	**70 141**
Liabilities associated with currency risk					
Borrowings	62 676	182 247	-	-	244 923
Accounts payable	57 895	5 096	121	-	63 112
Current income tax liabilities	259	-	-	-	259
Total liabilities exposed to currency risk	**120 830**	**187 343**	**121**	**-**	**308 294**
Net balance sheet position exposed to currency risk	**(52 575)**	**(185 457)**	**(121)**	**-**	**(238 153)**

During the year ended 31 December 2007 the Group hedged exchange currency risk in jointly controlled entity "REMA Immobilien" LLC, using derivative financial instruments. At the reporting date the Group has no derivative financial instruments.

The Group received borrowings nominated in foreign currency. Depending on cash inflows of the Group, the strengthening of foreign currencies can exercise negative effect on ability of the Group to repay the borrowings that increases the probability of losses on such borrowings.

The table below represents the impact on the net profit of the potential change of foreign exchange rates as of the reporting date on the assumption that the other conditions are invariable.

	2007	2006
	Impact on net profit	Impact on net profit
Increase USD at 5%	(8 897)	(7 047)
Decrease USD at 5%	8 897	7 047
Increase EUR at 5%	(1 652)	(5)
Decrease EUR at 5%	1 652	5

(in thousands of US Dollars)

The computation above was made regarding the Group's financial assets and financial liabilities nominated in currency other than functional.

Liquidity risk

Liquidity risk incurs when the claims periods on active operations and the maturity dates on passive operations are unmatched. The Group is exposed to liquidity risk due to the necessity of using of the cash available for the settlement on current debts and due to the maturing on the borrowings repayment.

The management of the Group's liquidity requires: making analysis for the potential rent receivable which are essential for liabilities settlement of when due; providing access to different sources of financing; having programme in the event that there is a shortage of financing.

The table below shows the classifications of financial liabilities in accordance with maturity dates as at 31 December 2007. The amounts represent contract non-discounted cash flows including total financial lease payables (before deducting future interest finance costs). These non- discounted cash flows differ from the amounts reflected in the balance sheet for the reason that amounts in the consolidated balance sheet are based on discounted cash flows.

When amounts due are not fixed they are calculated under conditions existing as at reporting date. Foreign currency nominated payables are estimated at the spot rate as at reporting date.

The table below shows the analysis of financial liabilities by their maturity date as at 31 December 2007:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings	20 631	42 637	73 332	271 506	65 406	473 512
Accounts payable	11 472	3 102	1 081	2 861	3 190	21 706
Total estimated future payments on financial liabilities	**32 103**	**45 739**	**74 413**	**274 367**	**68 596**	**495 218**

The table below shows the analysis of financial liabilities by their maturity date as at 31 December 2006:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings	28 798	19 018	46 579	89 330	149 288	333 013
Accounts payable	36 756	945	15 031	10 522	1 275	64 529
Total estimated future payments on financial liabilities	**65 554**	**19 963**	**61 610**	**99 852**	**150 563**	**397 542**

The Group uses the information about future minimum rent payments for the management of liquidity risk.

The table below shows the information about future minimum rent payments as at 31 December 2007 and 31 December 2006:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Potential minimum rent payments						
As at 31 December 2007	5 678	16 122	15 590	151 479	368 412	557 281
As at 31 December 2006	1 975	8 975	8 592	50 355	24 564	94 461

Risks arising on lease rate

The Group accepted risks related to fluctuation of the market rent rates on the investment property and its influence on financial statement and cash flows of the Group. Besides, the fluctuation of the rent rates directly influence on the fair value of investment properties.

The rent rates are revised annually.

If the lease rates had been for 10% lower as at 31 December 2007 and the other conditions had remained unchanged, the annual income would have been equal to USD 36 113 thousand less being the result of a lower income from investment properties and a lower fair value of investment properties.

(in thousands of US Dollars)

If the lease rates had been for 10% higher as at 31 December 2007 and the other conditions had remained unchanged, the annual income would have been equal to USD 36 113 thousand being the result of a higher income from investment properties and a higher fair value of investment properties.

The concentration of other risks

The Group has no substantial concentration of other risks as at 31 December 2007 and 31 December 2006.

32. Comparison of Financial Instruments Categories with Valuation Classes

In accordance with IFRS (IAS 39) "Financial Instruments: Recognition and Measurement" the Group qualifies its financial assets to the following categories: 1) investments held to maturity; 2) loans and receivables.

The table below shows the reconciliation of financial assets to the above-referred categories as at 31 December 2007:

	Investments held to maturity	Financial assets at fair value through profit or loss	Loans and receivables	Total
Cash and cash equivalents	-	43 848	-	43 848
Loans issued and deposits	-	-	-	
Bank deposits	-	-	5 405	5 405
Loans issued	-	-	2 291	2 291
Accounts receivable				
Rental receivables	-	-	6 178	6 178
Receivables on agency agreement	-	-	2 060	2 060
Receivables on assignment contracts	-	-	1 425	1 425
Receivables on agency agreements with tenants	-	-	831	831
Receivables on investment property sale	-	-	703	703
Receivables on utilities reimbursable by tenants	-	-	425	425
Receivables due from employees	-	-	122	122
Other	-	-	659	659
Investments held to maturity				
Bank's bills of exchange	5 787	-	-	5 787
Promissory notes of commercial organisations	482	-	-	482
Total financial assets	**6 269**	**43 848**	**20 099**	**70 216**
Non-financial assets				**785 816**
Total assets				**856 032**

(in thousands of US Dollars)

The table below shows the reconciliation of financial assets to the above-referred categories as at 31 December 2006:

	Investments held to maturity	Financial assets at fair value through profit or loss	Loans and receveiables	Total
Cash and cash equivalents	-	2 340	-	2 340
Loans issued and deposits				
Loans issued	-	-	56 681	56 681
Accounts receivable				
Rental receivables	-	-	1 198	1 198
Receivables on assignment contracts	-	-	8 727	8 727
Receivables on utilities reimbursable by tenants	-	-	447	447
Receivables due from employees	-	-	28	28
Other	-	-	454	454
Investments held to maturity				
Bank's bills of exchange	4	-	-	4
Promissory notes of commercial organisations	112	-	-	112
Total financial assets	**116**	**2 340**	**67 535**	**69 991**
Non-financial assets				**427 705**
Total assets				**497 696**

The Group reflects all its financial liabilities using the amortised costs.

33. Fair Value of Financial Instruments

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans issued and deposits	7 696	7 696	56 681	56 681
Investments held to maturity	6 269	6 265	116	115
Financial liabilities				
Borrowings	357 733	357 733	244 923	244 923
Accounts payable	19 939	19 939	63 112	63 112

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 a quoted market price.

The estimated fair value of financial instruments has been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is applied to interpret market data to determine the estimated fair values.

In estimating the fair value of financial instruments the Group has used available market information that may not be fully reflective of the value that could be realised in the current circumstances.

As described in Note 2, economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. While management has used available market information in estimating the fair value of financial instruments, the market information is not necessarily indicative of the amounts the Company could realise in current circumstances.

The following methods and assumptions were used to estimate the fair value of the Company's other financial instruments.

Loans issued and deposits

Loans issued and deposits are reported net of impairment provisions. The estimated fair value of loans issued and deposits represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that fair values of loans to customers as at 31 December 2007 and 31 December 2006 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Investments held to maturity

The fair value of fixed interest bearing financial assets and liabilities carried at amortised cost is determined by comparing the market interest rates at initial recognition of these instruments with current market rates on similar financial instruments. The estimated fair value of fixed interest bearing investments held to maturity is based on discounted cash flows using interest rates for debt instruments with similar credit risk and remaining maturity. The fair value of debt securities actively traded on an exchange was based on their market quotations. The fair value of instruments without quoted market prices is determined using the discounted cash flows model, which is based on the current yield curve for the remaining maturity.

Borrowings

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The Group believes that fair values of borrowings as at 31 December 2007 and 31 December 2006 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

34. Contingencies and Commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Group can be received. Based on its own estimates and internal and external professional advice, the Group's management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

The Group acquired control over the number of subsidiaries during the reporting period (Note 31). In certain cases the date when the control over the subsidiary begins precedes the date when the equity participation acquired. According to the Russian legislation, the participants of the limited liabilities company are entitled to make the decisions on management of the Group without any restrictions and any additional agreements which impose limitation of their rights might be declared invalid. The Group's management believes that no such agreements with the participants of the limited liabilities company for the transfer of control to the Group exist that can be declared invalid or annul a treaty.

Tax legislation

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities with in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the legal form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Standards. The consolidated statement of income, as presented in these consolidated financial statements, includes reclassifications to reflect the underlying economic substance of those transactions. These reclassifications do not have an effect on the Group's profit before taxation or the tax charge recorded in these consolidated financial statements. The Group's management is confident that this ongoing restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. Accordingly, no provision for a potential tax liability, with regard to these transactions, has been set up in the consolidated financial statements.

As at 31 December 2007 the Group has VAT recoverable in the amount of USD 30 420 thousand (31 December 2006: USD 23 368 thousand) the most part of which arose on as the result of acquisition and construction of investment properties. The Group management is of the opinion that VAT will be recovered and accordingly no provision for impairment of VAT recoverable has been made in these consolidated financial statements.

The regional organisational structure of the Russian Federation tax authorities and the regional judicial system can mean that taxation issuers successfully defended in one region may be unsuccessful in another region. The tax authorities in each region may have a different interpretation of similar taxation issues. There is however some degree of direction provided from the central authority based in Moscow on particular taxation issues.

If a particular treatment is to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest, which can be significant. At the same time, in accordance with the Russian Tax Code Part I the uncertainties and vagueness of the tax statements are to be treated in a favour of taxpayer. Tax years remain open to review by the tax authorities for three years

(in thousands of US Dollars)

Pledged assets

The Group has the following assets that have been pledged as collateral for borrowings received (Note 15):

	31 December 2007		31 December 2006	
	Carrying value of assets pledged	Related obligation	Carrying value of assets pledged	Related obligation
Bank deposits	3 331	3 157	-	-
Investments held to maturity	5 787	5 708	-	-
Investment property	413 775	206 282	226 446	142 045
Land plots under development and construction in progress	67 298	33 564	32 636	7 054
Capital advances	3 832	3 814	10 838	5 165
Total pledged assets	**494 023**	**252 525**	**269 920**	**154 264**

As at 31 December 2007, bank deposits represent the amount of USD 3 331 thousand (equivalent of RUR 81 762 thousand) placed in CB "Transportny" at the fixed rate of 11% per annum in RUR. These bank deposits represent the Group's guarantee to the Bank in respect of third parties' borrowings. At the date of these consolidated financial statements the bank deposits were fully repaid.

As at 31 December 2007, investments held to maturity include bills of exchange of CB "Transportny" (USD 5 787 thousand). These bills of exchange represent the Group's guarantee to the Bank for the borrowings of the third parties. At the date of these consolidated financial statements issue the bills of exchange were fully repaid.

As at 31 December 2007 the trading centers with a fair value of USD 413 775 thousand (31 December 2006: USD 226 446 thousand) were pledged as collateral under the loans received in the amount of USD 206 282 thousand (31 December 2006: USD 142 045 thousand) (Note 6).

As at 31 December 2007 land plots under development with a fair value of USD 3 313 thousand (31 December 2006: USD 7 844 thousand) and a constructions in progress with a carrying value of USD 63 984 thousand (31 December 2006: USD 24 792 thousand) were pledged as collateral under the loans received in the total amount of USD 33 564 thousand (31 December 2006: USD 7 054 thousand) (Note 7).

As at 31 December 2007 capital advances under construction contracts with a fair value of USD 3 832 thousand (31 December 2006: USD 10 838 thousand) were pledged as collateral under the loans received in the total amount of USD 3 814 thousand (31 December 2006: USD 5 165 thousand) (Note 8).

As at 31 December 2007 100% stakes in "TC Svobodniy" LLC" were pledged by the Group as collateral under the loans received from C.R.R.B.V. Investment property units pertaining to "TC Svobodniy" LLC with fair of USD 65 000 thousand were pledged by the Group.

As at 31 December 2007 100% stakes in "VINART" LLC were pledged by the Group as collateral under the loans received from CJSC Raiffeisen bank. Investment property units pertaining to ""VINART" LLC with fair of USD 8 879 thousand was pledged by the Group.

The 100% shares in "Mobil Systems" LTD were pledged by the Group as collateral under the loans received from CJSC UniCreditBank. "Mobil Systems" LTD is the owner of the investment property with fair value of USD 65 000 thousand, that was also pledged by the Group.

100% stakes in OOO "Romex – invest", "REKOM" LLC were pledged by the Group as collateral under the loans received from JSC Sviaz-bank. Pertaining to OOO "Romex – invest" constructions in progress with a carrying value of USD 19 849 thousand that was also pledged by the Group.

Stakes in "RTM Lipetsk" LTD were pledged by the Group as collateral under the loans received from OJSC Sberbank. Pertaining to in "RTM Lipetsk" LTD constructions in progress with a carrying value of USD 18 476 thousand, that was also pledged by the Group.

The shares of CJSC "Mercury" were pledged by the Group as collateral under the loan received from CJSC Raiffeisen bank. CJSC "Mercury" is the owner of the investment property having a fair value of USD 98 840 thousand, that was pledged by the Group.

Leasehold properties

The land underlying most of the Group's properties is leased from the local authorities. A number of the Group's land leases have relatively short terms. Under Russian law, a lessee has a pre-emptive right to extend its lease upon expiry provided it has fulfilled all obligations under the lease. However, Russian courts have held that the pre-emptive right will not apply if the lessor decides not to continue leasing the land. Accordingly, if the lessors decide in the future to stop leasing the properties underlying the Group's developments, then the Group may lose its right to use these properties upon the expiration of current leases.

(in thousands of US Dollars)

Capital commitments

The Group's future capital commitments on construction in progress are as follows:

	31 December 2007	31 December 2006
Less than 1 year	1 235	3 122
From 1 to 5 years	-	34 000
Total capital commitments	**1 235**	**37 122**

In 2007 conditions of construction agreements outstanding as at 31 December 2006 were changed. Therefore future capital commitments on construction in progress decrease as at 31 December 2007.

Derivative financial instruments

Derivative financial instruments are used primarily to hedge foreign exchange risk. The Company incurred foreign exchange risk from liability in USD. To minimise that exchange risk the jointly controlled entity REMA Immobilien LLC (engagement in USD liabilities in the amount of USD 27 810 thousand or equivalent of RUR 693 840 thousand) the Group entered into one forward contract on 18 May 2007. The settlement date of the forward is 22 August 2007. As a result of this operation the Company recognised a loss in the amount USD 212 thousand (Note 27). At the same time liabilities in USD were converted to liabilities in Euro and the Company recognised a loss from foreign exchange differences in the amount USD 199 thousand.

35. Acquisitions of Subsidiaries

On 20 February 2007 the Company acquired 100% stake in share capital of "MARTA" Vermögensberatung GmbH. "MARTA" Vermögensberatung GmbH owns a 75% stake in Mareal GmbH which, in turn, owns a 100% interest in REMA Immobilien LLC. The Company obtained a control over "MARTA" Vermögensberatung GmbH on 9 January 2007.

On 23 March 2007 the Group acquired additional 49% shares in charter capital of "PANTEKS" LLC, as a result its share in charter capital reached 100%.

On 1 November 2007 as agency agreement for property acquisition was fulfilled and as the result Company acquired 100% control over KrasNedvizhimost LTD.

During the year ended 30 December 2007 the Company purchased 1% stakes in the following subsidiaries: "RTM Odintsovo" LTD, "INEX" LTD, "Tula Rekonstruksiya" LTD, "VINART" LLC and 10% stakes in "RTM Lipetsk" LTD.

Acquisition of interest in the subsidiaries' charter capital gave rise to goodwill, determined as an excess of consideration paid by the Company over the fair value of acquired share in net assets of the subsidiary.

	31 December 2007	31 December 2006
KrasNedvizhimost LTD	4 293	-
OOO "Romex – invest"	1 765	1 765
"Tula Rekonstruksiya" LTD	1 404	1 404
"RTM- Izmaylovskiy" Ltd	581	581
"REKOM" LLC	190	190
"ELKO SYSTEMS" LLC	101	101
"Torgpromaktiv" LTD	24	24
JSC "RTM Development"	22	22
"Averstrade" LLC	1	1
Effect of exchange rate changes	426	91
Total goodwill	**8 807**	**4 179**

In several cases acquisition of interest in the subsidiaries' charter capitals gave rise to excess of acquirer's interest in the net fair value of acquiree's net assets over cost, determined as the difference between the fair value of acquired share in net assets of the subsidiary and consideration paid by the Group.

(in thousands of US Dollars)

	31 December 2007	31 December 2006
"MARTA" Vermögensberatung GmbH	54 803	-
"PANTEKS" LLC	1 246	1
"Mobil Systems" LTD	-	22 530
"RTM Odintsovo" LTD	-	7 821
CJSC "Kaskad"	-	8 339
CJSC "Mercury"	-	2 670
"TC Svobodniy" LLC	-	2 627
"RTM – Samara" LTD	-	2 254
MP Trading LLC	-	2 223
"VINART" LLC	-	1 293
CJSC FPK "Orbita"	-	827
"ExpoTekh" LLC	-	510
"Dom torgovli № 1 "Era- 2" LLC	-	155
OOO "Markon"	-	108
INEX LLC	-	105
"RTM Lipetsk" LTD	-	2
"RTM Finance" LTD	-	1
"ELEGANS" LLC	-	-
Effect of exchange rate changes	1 567	1 736
Excess of acquirer's interest in the net fair value of acquiree's net assets over cost arising on acquisition of subsidiaries	**57 616**	**53 202**

"MARTA" Vermögensberatung GmbH

Assets and liabilities acquired and goodwill arising on acquisition are shown in the table below.

	At the date of the acquisition – 9 January 2007
Investment property	115 295
Accounts receivable and advances	2 615
Fixed assets and construction in progress	2 356
Cash and cash equivalents	957
Deferred income tax assets	37
Deferred income tax liabilities	(13 039)
Borrowings	(51 426)
Accounts payable and advances received	(1 861)
Total net assets	**54 934**
Consideration paid	(131)
Excess of acquirer's interest in the net fair value of acquiree's net assets over cost arising on acquisition of subsidiaries	**54 803**

"PANTEKS" LLC

Assets and liabilities acquired and goodwill arising on acquisition are shown in the table below.

	At the date of the acquisition – 23 March 2007
Investment property	7 194
Loans issued	246
Accounts receivable and advances	49
Other assets	33
VAT recoverable	26
Cash and cash equivalents	23
Deferred income tax liabilities	(1 697)
Accounts payable and advances received	(345)
Total net assets	**5 529**
Share of net assets acquired (49%)	**2 709**
Consideration paid	(1 463)
Excess of acquirer's interest in the net fair value of acquiree's net assets over cost arising on acquisition of subsidiaries	**1 246**

(in thousands of US Dollars)

"KrasNedvizhimost" LTD

Assets and liabilities acquired and goodwill arising on acquisition are shown in the table below.

	At the date of the acquisition – 31 October 2007
Investment property	20 830
Accounts receivable and advances	544
Current tax assets	7
VAT recoverable	838
Cash and cash equivalents	26
Deferred income tax liabilities	(3 888)
Accounts payable and advances received	-
Total net assets	**18 357**
Share of net assets acquired (100%)	**18 357**
Consideration paid	(22 650)
Goodwill	**(4 293)**

The Group doesn't have any contingent liabilities related to acquisition of subsidiaries in addition to information disclosed in these consolidated financial statements.

36. Subsequent Events

In January 2008 the stake of OJSC InvestRetailGroup in the share capital of OAO RTM was decreased from 14.25% to 0.0% whereas the stake of Pilot Holding GmbH was increased from 14.25% to 23.54%.

In January 2008 the companies controlled by General Director of OAO RTM Mr. Vyrypaev purchased 35.7% shares of OAO RTM which earlier had been controlled by president of MARTA Holding and the Chairman of Board of directors of OAO RTM Mr. Trefilov and Mr. Vasiljev. Thus, Mr. Vyrypaev controls 71.4% shares of OAO RTM.

On 10 February 2008 OAO RTM purchased 100% stake in charter capital of Tillerson Holdings Limited (Cyprus). On 13 March 2008 Tillerson Holdings Limited (Cyprus) was renamed to RTMTC LIMITED (Cyprus).

On 14 February 2007 OAO RTM purchased 100% stake in charter capital of Fawns Investments Limited (Cyprus) and 100% stake in charter capital of Oneok Investments Limited (Cyprus). On 15 February 2008 Fawns Investments Limited (Cyprus) was renamed to RTMH LIMITED (Cyprus) and on 18 March 2008 Oneok Investments Limited (Cyprus) was renamed to RTMD LIMITED.

On 20 February 2008 "MARTA" Vermögensberatung GmbH singed a share purchase agreement to acquire 100% of the share of REMA Immobilien LLC from Mareal GmbH. According to the agreement "MARTA" Vermögensberatung GmbH will pay a share price of Euro 75 327 thousand by two tranches. The first tranche of the sale price in the amount of Euro 28 478 thousand was paid within 60 days and the second tranche in the amount of Euro 46 849 thousand is to be paid until 31 December 2008.

On 20 February 2008 "MARTA" Vermögensberatung GmbH offered to Euro-Billa Holding Aktiengesellschaft to sell its 75% share in Mareal GmbH for a share price of Euro 26.25 with maturity date of 31 December 2009. The acceptance of the offer depends on a shareholders resolution of Mareal GmbH regarding dividend distribution. On 10 April 2008 the participants of Mareal GmbH made a decision to pay the dividends. The offer was accepted on 14 April 2008. The payment of 75% share in Mareal GmbH was made on 16 May 2008.

On 26 February OAO RTM transferred 99.9% stake in the charter capital of OOO "Markon" to its subsidiary Tillerson Holdings Limited (Cyprus) (later renamed to RTMTC LIMITED (Cyprus).

On 27 February 2008 OAO RTM set up a company RTMA Limited.

On 3 March 2008 a loan agreement between "MARTA" Vermögensberatung GmbH and C.R.R. B.V. (the Netherlands) in the total amount of USD 127 000 thousand was signed. The first tranche in the amount of USD 108 012 thousand (net the commission in the amount of USD 3 988 thousand) was received on 5 March 2008 with maturity date of 3 March 2011 and an interest rate of 17.2619% per annum. The loan was used to repay the borrowings and loans received by REMA Immobilien LLC in the amount of Euro 24 926 thousand, RUR 308 950 thousand and also to the repayment of the first tranche in the amount of Euro 28 478 thousand according to the stake purchase agreement in the charter capital of REMA Immobilien LLC. According to the loan agreement "MARTA" Vermögensberatung GmbH pledged as collateral 99.9% stake in the charter capital of REMA Immobilien LLC, OAO RTM also pledged as collateral its 0.01% stake in charter capital of REMA Immobilien LLC and 100% stake in charter capital of "MARTA" Vermögensberatung GmbH.

On 4 March 2008 the Extraordinary General Shareholders' Meeting of OAO RTM has approved the decision of the Board of Directors to increase the OAO RTM share capital by means of an additional issue of 87 804 880 ordinary shares having a par value of 0.001 rubles per share. In conformity with the Russian legislation, the issue of additional ordinary shares of OAO RTM will be carried out in two stages. At first, the existing shareholders will be able to exercise their pre-emptive right to purchase the shares in quantities that are in proportion to the number of shares of this type they currently hold. Following that, the shares will be floated for public subscription. According to the decision of the Extraordinary General Shareholders' Meeting of OAO RTM, the issue price of the additional ordinary shares cannot exceed USD 2.05 per share. The issue price of the shares offered to the pre-emptive right holders shall not be lower than 10% of the price of the additional ordinary shares offered to other purchasers. According to the order of the Federal Financial Risks Service's regional department dated 20 May 2008 the additional issue of shares was suspended on 27 May 2008.

On 11 March 2008 OAO RTM purchased from "MARTA" Vermögensberatung GmbH 0.01% in charter capital of REMA Immobilien LLC.

OAO RTM was included into the listing "B" in the Moscow Interbank Currency Exchange (MICEX). The trades of OAO RTM's shares in the quoted listing "B" started on 25 April 2008.

According to the decision of the Extraordinary General Shareholders' Meeting of OAO RTM of 29 May 2008 the authorities of the members of the Board of Directors were ceased and a new Board of Directors was elected. Mr. Linkov and Mr. Trefilov weren't elected to the new Board of Directors. Mr. Kirienko and Mr. Selesnev were appointed as members of the Board of Directors of RTM.