JSC OPIN and Subsidiaries

Independent Auditors' Report

Consolidated Interim Financial Statements
For the Six Months Ended 30 June 2006

Index **Page**

JSC OPIN AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

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

Management is responsible for the preparation of the consolidated interim financial statements that present fairly the interim financial position of the Group at 30 June 2006, the interim results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated interim 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 interim financial statements; and
- Preparing the consolidated interim 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 interim 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 interim financial statements for the six months ended 30 June 2006 were authorized for issue on 16 August 2006 by:

Sergey V. Bachin

General Director of JSC OPIN

Moscow
16 August 2006

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated interim balance sheet of JSC OPIN and subsidiaries (the "Group") as of 30 June 2006, and the related consolidated interim statements of income, changes in equity and cash flows for the six months then ended. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated interim financial statements present fairly, in all material respects, the consolidated interim financial position of the Group as of 30 June 2006, and the consolidated interim results of its operations and its cash flows for the six months then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

16 August 2006

Moscow

CONSOLIDATED INTERIM BALANCE SHEET
AS OF 30 JUNE 2006

	Notes	30 June 2006 '000 USD	31 December 2005 '000 USD
ASSETS			
NON-CURRENT ASSETS:			
Goodwill		633	633
Intangible assets	4	77	62
Property, plant and equipment	5	68,701	65,465
Capital advances	6	101,638	41,520
Investment property	7	125,706	49,271
Land under construction, including land improvements	8	362,872	294,317
Investments	34	10	10
Value added tax recoverable		11,013	7,606
Deferred tax assets	17	1,763	586
		672,413	459,470
CURRENT ASSETS:			
Land held for resale		36,769	34,658
Inventories		431	355
Advances paid		4,563	7,725
Value added tax recoverable		7,581	6,470
Receivables from customers under construction contracts		8,231	21,160
Trade accounts receivable	31	1,584	1,116
Other receivables and prepaid expenses	9, 31	2,640	5,685
Loans issued	10, 31	17,583	3,690
Cash reserved at banks under currency control regulation	11	-	3,005
Cash and cash equivalents	11, 31	29,251	55,428
		108,633	139,292
TOTAL ASSETS		781,046	598,762
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	12	160,857	119,797
Additional paid-in-capital	13	61,997	19,024
Land under construction revaluation reserve	14	93,048	69,368
Retained earnings		60,143	36,147
Equity attributable to the shareholders of the parent company		376,045	244,336
Minority interest	15	12,285	5,901
		388,330	250,237
NON-CURRENT LIABILITIES:			
Deferred income tax liabilities	17	83,083	59,276
Long-term accounts payable	31	10,024	8,840
Long-term loans	18, 31	220,724	221,402
		313,831	289,518
CURRENT LIABILITIES:			
Short-term loans and accrued interest	19, 31	5,508	3,414
Trade and other accounts payable	20	22,676	17,791
Tax liability, other than income tax		1,016	932
Current income tax liability		1,417	844
Payables to customers under construction contracts	31	40,729	33,573
Advances received from customers for land plots	31	7,539	2,453
		78,885	59,007
TOTAL EQUITY AND LIABILITIES		781,046	598,762

The notes on pages 8 to 37 form an integral part of these consolidated interim financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated interim financial statements is presented on page 1. The independent auditors' report is presented on page 2.

CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
REVENUE			
Revenue under construction contracts	21, 31	21,022	22,669
Hotel revenue		9,701	8,138
Land sold		2,774	-
Rental income from investment property		1,720	1,524
Revenue on rendering other services	31, 33	1,964	332
		37,181	32,663
COST OF SALES			
Cost of construction contracts	22	(12,081)	(12,455)
Cost of hotel services	24, 31	(5,561)	(5,349)
Cost of land sold		(2,531)	-
Cost of rental services	23	(368)	(323)
Cost of other services	25, 31	(1,642)	(168)
		(22,183)	(18,295)
GROSS PROFIT		14,998	14,368
Selling, general and administrative expenses	26	(7,236)	(4,927)
Share option expense	16	(3,230)	-
Interest income	27	3,139	599
Interest expense	28	(5,425)	(1,687)
Gain on investment property revaluation	7	22,877	-
Net gain / (loss) on foreign currency operations		4,928	(1,826)
Other income		128	43
Other expenses	31	(1,016)	(340)
PROFIT BEFORE INCOME TAX		29,163	6,230
INCOME TAX	17	(6,157)	(2,008)
NET PROFIT		23,006	4,222
Attributable to:			
Shareholders of the parent company		23,184	4,222
Minority interest	15	(178)	-
		23,006	4,222
EARNINGS PER SHARE in USD (basic and diluted)	29	5.34	1.18

The notes on pages 8 to 37 form an integral part of these consolidated interim financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated interim financial statements is presented on page 1. The independent auditors' report is presented on page 2.

JSC OPIN AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2006

'000 USD	Share capital	Additional paid-in-capital	Land under construction revaluation reserve	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interest	Total equity
Balance as of 31 December 2004	119,797	19,024	23,247	20,482	182,550	-	182,550
Net profit for the period	-	-	-	4,222	4,222	-	4,222
Revaluation surplus, net of deferred tax (Note 14)	-	-	23,167	-	23,167	-	23,167
Balance as of 30 June 2005	**119,797**	**19,024**	**46,414**	**24,704**	**209,939**	**-**	**209,939**
Balance as of 31 December 2005	119,797	19,024	69,368	36,147	244,336	5,901	250,237
Net profit for the period	-	-	-	23,184	23,184	(178)	23,006
Revaluation surplus, net of deferred tax (Note 14)	-	-	24,492	-	24,492	6,562	31,054
Revaluation on assets disposed off (Note 14)	-	-	(812)	812	-	-	-
Issue of shares (Note 12, 13)	45,784	44,329	-	-	90,113	-	90,113
Purchase of treasury shares (Note 12, 13)	(4,724)	(4,586)	-	-	(9,310)	-	(9,310)
Share option expense (Note 16)	-	3,230	-	-	3,230	-	3,230
Balance as of 30 June 2006	**160,857**	**61,997**	**93,048**	**60,143**	**376,045**	**12,285**	**388,330**

The notes on pages 8 to 37 form an integral part of these consolidated interim financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated interim financial statements is presented on page 1. The independent auditors' report is presented on page 2.

JSC OPIN AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	Six months ended 30 June 2006 000'USD	Six months ended 30 June 2005 000'USD
OPERATING ACTIVITIES:			
Profit before income tax		29,163	6,230
Adjustments for:			
Depreciation and amortization expense		1,041	966
Gain on property, plant and equipment disposal		(3)	-
Interest income		(3,139)	(599)
Interest expense		5,425	1,687
Share option expense		3,230	-
Gain on investment property revaluation		(22,877)	-
Operating cash flow before movements in working capital		12,840	8,284
(Increase) / decrease in inventories		(76)	152
Decrease in receivables from customers under construction contracts		12,929	1,581
Decrease in other receivables and prepaid expenses		3,408	104
Increase in trade accounts receivables		(468)	(274)
Increase in value added tax recoverable		(4,516)	(2,501)
Decrease in advances paid		3,162	1,622
Increase in long-term accounts payable		1,184	-
Increase / (decrease) in trade and other accounts payable		10,613	(2,133)
Increase in payables to customers under construction contracts		7,156	5,948
Increase in advances received from customers for land plots		5,086	-
Increase in other tax liability		77	39
Decrease in land held for resale		2,531	-
Cash provided by operations		53,926	12,822
Interest paid		(5,999)	(1,241)
Income tax paid		(2,611)	(291)
Net cash from operating activities		**45,316**	**11,290**
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired	30	(29,420)	(21,990)
Decrease of accounts payable on acquisition of subsidiaries		(9,325)	-
Loans issued		(17,766)	(6,472)
Loans repaid		4,801	9,947
Interest received		57	751
Purchase of property, plant and equipment and other non-current assets		(61,765)	(40,933)
Proceeds from sale of property, plant and equipment		4	-
Land and land improvements		(41,231)	(31,659)
Net cash used in investing activities		**(154,645)**	**(90,356)**

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	Six months ended 30 June 2006 000'USD	Six months ended 30 June 2005 000'USD
FINANCING ACTIVITIES:			
Proceeds from issue of shares		90,113	-
Release of cash reserved at banks under currency control regulation		3,005	-
Purchase of treasury shares		(9,310)	-
Proceeds from loans		-	53,271
Repayment of loans		(993)	(1,782)
Net cash from financing activities		**82,815**	**51,489**
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		337	(35)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(26,177)	(27,612)
CASH AND CASH EQUIVALENTS, beginning of the period	11	55,428	58,358
CASH AND CASH EQUIVALENTS, end of the period	11	29,251	30,746

Interest capitalized by the Group during the six months ended 30 June 2006 amounted to USD 6,085 thousand. Capitalized interest of USD 1,810 thousand was unpaid as of 30 June 2006.

Interest capitalized by the Group during the six months ended 30 June 2005 amounted to USD 830 thousand. Capitalized interest of USD 658 thousand was unpaid as of 30 June 2005.

The notes on pages 8 to 37 form an integral part of these consolidated interim financial statements. The statement of management's responsibilities for the preparation and approval of the consolidated interim financial statements is presented on page 1. The independent auditors' report is presented on page 2.

1. NATURE OF THE BUSINESS

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

The Company is the parent company of a number of entities (the "Group") which are consolidated in the financial statements as of 30 June 2006.

The principal activities and countries of incorporation of the entities of the Group as of 30 June 2006 and 31 December 2005 are as follows:

Operating entity	Project	Principal activity	% held as of 30 June 2006	% held as of 31 December 2005	Country of incorporation
Growth Technologies (Russia) Limited	Group's projects	Providing consulting services in connection with investment in the real estate market; Co-investing in real estate projects	100%	100%	Cyprus
Pavlovo LLC	Pavlovo	Investing in, developing, managing and disposing of Pavlovo project assets	100%	100%	Russia
Pavlovo Podvorye LLC	Pavlovo Podvorye	Investing in, developing, managing and disposing of Pavlovo Podvorye project assets	100%	100%	Russia
Stroy Invest Group LLC	Pavlovo II	Investing in, developing, managing and disposing of Pavlovo II project assets	100%	100%	Russia
Sakharova Business Plaza LLC	Sakharov Business Plaza project	Land lease holding company. Investing in, developing, managing and disposing of Sakharov Business Plaza project assets	60%	60%	Russia
Sakharov Office Park LLC	Sakharov Business Plaza project	Investor and future owner of the Commercial Part of Sakharov Business Plaza	100%	100%	Russia
Investproject Group LLC	An A Class Office Center	Investing in, developing, managing and disposing of a Class A Office Center assets	100%	100%	Russia
Yacht-club "Pestovsky" LLC	Pestovo	Investing in, developing, managing and disposing of Pestovo project assets	100%	100%	Russia

Operating entity	Project	Principal activity	% held as of 30 June 2006	% held as of 31 December 2005	Country of incorporation
Estate Management LLC	Pestovo	Development, sale and property management of Pestovo project assets	100%	100%	Russia
Invest Group LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	100%	Russia
OI Management Company LLC	Group's project in Tver Region	Investing in, developing, managing and disposing of future Tver project assets	100%	100%	Russia
ExpoDom LLC	Group's real property	Providing property management and maintenance services	100%	100%	Russia
IR Development Ltd	Group's development projects	Providing technical supervision and construction management services	100%	100%	Russia
Pestovo LLC	Pestovo	Investing in, developing, managing and disposing of Pestovo project assets	100%	100%	Russia
Open Investments - Saint Petersburg LLC	Group's projects in Saint-Petersburg	Investing in, developing, managing and disposing of future Saint-Petersburg projects' assets	100%	100%	Russia
Zhilaya i Commercheskaya Nedvizhimost LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	100%	Russia
JSC Hotel Novoslobodskaya	Novotel Moscow Center Hotel	Providing hotel services	100%	100%	Russia
Stroy Group LLC	Pavlovo II	Investing in, developing, managing and disposing of Pavlovo II project assets	100%	100%	Russia
Proekt Capital LLC	Martemianovo	Investing in, developing, managing and disposing of Martemianovo project assets	100%	100%	Russia
Stroy Servis Group LLC	Martemianovo	Investing in, developing, managing and disposing of Martemianovo project assets	100%	100%	Russia
Martemianovo LLC	Martemianovo	Investing in, developing, managing and disposing of Martemianovo project assets	100%	100%	Russia
Amalia LLC	Pavlovo II	Investing in, developing, managing and disposing of Pavlovo II project assets	100%	100%	Russia
INNOMOTORS LLC	Zhukov Plaza	Investing in, developing, managing and disposing of a Class A Office Center assets	100%	100%	Russia

Operating entity	Project	Principal activity	% held as of 30 June 2006	% held as of 31 December 2005	Country of incorporation
Krasnaya Gorka LLC	Samara	Investing in, developing, managing and disposing of the Samara land plot	100%	100%	Russia
Beliy Parus LLC	Sochi Hotel and Residential Complex	Investing in, developing, managing and disposing of Sochi Hotel and Residential Complex assets	100%	100%	Russia
Invest Nedvizhimost LLC	Novorizhskiy	Investing in, developing, managing and disposing of Novorizhskiy project assets	100%	100%	Russia
Lukino LLC	Novorizhskiy	Investing in, developing, managing and disposing of Novorizhskiy project assets	100%	100%	Russia
Proekt Stroy LLC	Novorizhskiy	Investing in, developing, managing and disposing of Novorizhskiy project assets	100%	100%	Russia
CP Martemianovo LLC	Martemianovo	Investing in, developing, managing and disposing of Martemianovo project assets	100%	-	Russia
Stroy Park LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	-	Russia
Onigomati Investment Limited	Group's project	Providing consulting services in connection with investment in the real estate market; Co-investing in real estate projects	100%	-	Cyprus
Eko-Center LLC	Gorki-10	Investing in, developing, managing and disposing of the assets of the Gorki-10 land plot	100%	-	Russia

In addition the Group owns and consolidates its 100% ownership in Closed Unit Investment Fund Novy Dom ("New House") managed by LLC Management Company Rosbank.

As of 30 June 2006 and 31 December 2005 the shareholding structure of the Company was as follows:

Shareholder	30 June 2006	31 December 2005
MOTHERLANE PROPERTIES LIMITED	59.44%	61.47%
Treasury stock	2.73%	-
Others	37.83%	38.53%
Total	**100.00%**	**100.00%**

The ultimate owners of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov. Each of them indirectly holds approximately 30% of the shares of the Company.

2. PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The exchange rates of the Central Bank of the Russian Federation used in translating the financial statements of the entities domiciled in the Russian Federation into US Dollars were USD 1 = 27.0789 RUR as of 30 June 2006 and USD 1 = 28.7825 RUR as of 31 December 2005.

The translation of RUR denominated assets and liabilities into USD as of 30 June 2006 and 31 December 2005 does not indicate that the Group could realize, or settle in USD, the translated value of these assets and liabilities or to distribute the amount of equity to shareholders.

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

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

Since the results of the Group operations closely relate to and depend on changing market conditions, the results of the Group operations for the interim period are not necessarily indicative of the results for the year.

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

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

	30 June 2006 000'USD
Investment property	125,706
Land under construction, including land improvements	362,872

Investment property and land under construction, including land improvements are measured at the revalued amounts. The date of the latest appraisal was 30 June 2006. Taking into account anticipated market conditions management believes that the next revaluation, which is due on 31 December 2006, of investment property and land under construction, including land improvements, existing as of 30 June 2006 would not be materially different from the carrying balance.

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

Revenue recognition: Note 22 describes the expenditures incurred by the Group with respect to construction contracts concluded with the Group's customers for the construction of houses on land owned by the Group. Title to those houses and the land has not been transferred to the Group's customers as of the date of these financial statements. Following negotiation of the terms of the construction contacts, a schedule of work was agreed, which will involve Group's expenditure until 2008. In the light of the specifics attributable to construction contracts, management was required to consider whether it was appropriate to recognize revenue from these transactions of USD 21,022 thousand in the current period, in line with the Group's general policy of recognizing revenue from construction contracts. In making its judgment, management considered the detailed criteria for the recognition of revenue from construction contracts set out in IAS No.11 "Construction Contracts" and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the houses and the land. Following a detailed review of the Group's construction contracts, the directors are satisfied that recognition of the revenue in the current year is appropriate, in conjunction with recognition of attributable construction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated interim financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The ownership interest of the Company in its significant subsidiaries as of 30 June 2006 and 31 December 2005 is presented in Note 1.

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest income and expense – Interest income and expense are recognized on an accrual basis using the effective interest rate method. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield.

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

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

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

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

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are offset when:

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

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

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

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

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

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

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

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

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

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

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

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

Land under construction – Land under construction represents land, which is in the process of development by the Group. 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 appraisal, 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 equity as revaluation reserve. The increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. The decrease shall be debited directly to equity under revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

If after the development process 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.

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

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

The Group elected to use the fair value model to measure investment property subsequent to initial recognition, therefore investment property is stated at fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reclassifications – The following reclassifications have been made to the consolidated financial statements for the six months ended 30 June 2005 and to the consolidated balance sheet as of 31 December 2005 to conform to the presentation for the six months ended 30 June 2006 as current period presentation provides better view of the consolidated financial statements:

Nature of reclassification	Amount '000 USD	Income statement / balance sheet caption as per the previous report	Income statement / balance sheet caption as per current report
Cost of others services	168	Selling, general and administrative expenses	Cost of other services
Direct operating expenses arising on investment property	323	Selling, general and administrative expenses	Cost of rental services
Loss on foreign currency sale and purchase	74	Selling, general and administrative expenses	Other expenses
Advances received from customers for land plots	3,719	Advances received for land	Payable to customers under construction contracts

Adoption of new standards effective after the reporting date – The Group has carried out an assessment of the effect of changes on its financial position and results of operations reported under IFRS which would become effective for accounting periods beginning after 30 June 2006.

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

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

4. INTANGIBLE ASSETS

Intangible assets as of 30 June 2006 and 31 December 2005 consisted of the following:

'000 USD	Computer software	Trademarks and logotypes	Total
Cost			
At 31 December 2005	46	16	62
Additions	36	-	36
At 30 June 2006	82	16	98
Accumulated amortization			
At 31 December 2005	-	-	-
Charge for the period	19	2	21
At 30 June 2006	19	2	21
Carrying amount			
At 31 December 2005	**46**	**16**	**62**
At 30 June 2006	**63**	**14**	**77**

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 30 June 2006 and 31 December 2005 consisted of the following:

'000 USD	Land and buildings	Fittings and fixtures	Transport, machinery and equipment	Furniture and office equipment	Construc-tion in progress	Total
Cost						
At 31 December 2005	48,140	4,624	1,869	986	12,076	67,695
Additions	-	8	47	170	3,984	4,209
Transfer from land under construction, including land improvements (Note 8)	-	-	-	-	48	48
Transfers	(592)	-	592	-	-	-
Disposals	-	-	(1)	-	-	(1)
At 30 June 2006	47,548	4,632	2,507	1,156	16,108	71,951
Accumulated depreciation						
At 31 December 2005	1,161	209	658	202	-	2,230
Charge for the period	545	146	248	81	-	1,020
At 30 June 2006	1,706	355	906	283	-	3,250
Net Book Value						
At 31 December 2005	**46,979**	**4,415**	**1,211**	**784**	**12,076**	**65,465**
At 30 June 2006	**45,842**	**4,277**	**1,601**	**873**	**16,108**	**68,701**

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

As of 30 June 2006 a building with a book value of USD 35,620 thousand was pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 18).

During the six months ended 30 June 2006 the Group capitalized interest of USD 172 thousand in construction in progress.

During the six months ended 30 June 2005 the Group capitalized interest of USD 24 thousand in construction in progress.

6. CAPITAL ADVANCES

Capital advances as of 30 June 2006 and 31 December 2005 consisted of the following:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Advance payment for the acquisition of land plots	29,558	2,290
Other capital advances	72,080	39,230
Total	**101,638**	**41,520**

During the six months ended 30 June 2006 the Group capitalized interest of USD 1,160 thousand in advances paid for capital expenses.

During the six months ended 30 June 2005 the Group capitalized interest of USD 410 thousand in advances paid for capital expenses.

7. INVESTMENT PROPERTY

Investment property as of June 30 2006 and 31 December 2005 consisted of the following:

'000 USD	Buildings	Land plots	Land plots with buildings	Total
At 31 December 2005	19,671	11,000	18,600	49,271
Acquisition of subsidiaries (Note 30)	-	40,336	-	40,336
Transfer from land under construction, including land improvements (Note 8)	-	-	13,222	13,222
Change in fair value	2,835	12,564	7,478	22,877
At 30 June 2006	**22,506**	**63,900**	**39,300**	**125,706**

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

8. LAND UNDER CONSTRUCTION, INCLUDING LAND IMPROVEMENTS

As of 30 June 2006 and 31 December 2005 land under construction, including land improvements consisted of:

'000 USD	Land plots	Land improvements	Total
At 31 December 2005	251,529	42,788	294,317
Revaluation surplus	40,860	-	40,860
Additions	7,347	46,057	53,404
Transfer to land for resale	(4,642)	-	(4,642)
Transfer to investment property (Note 7)	(3,091)	(10,131)	(13,222)
Transfer to cost of construction contracts (Note 22)	-	(7,797)	(7,797)
Transfer to property, plant and equipment (Note 5)	-	(48)	(48)
At 30 June 2006	**292,003**	**70,869**	**362,872**

Land is recorded at revalued amount determined by independent appraiser, by applying the income capitalisation method. Existing improvements are accounted for at cost.

During the six months ended 30 June 2006 the Group capitalized borrowing costs in land under construction, including land improvements of USD 4,753 thousand.

During the six months ended 30 June 2005 the Group capitalized borrowing costs in land under construction, including land improvements of USD 396 thousand.

As of 30 June 2006 land under construction with a book value of USD 60,878 thousand was pledged as collateral under the loan received from JSCB ROSBANK (Note 18).

9. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of 30 June 2006 and 31 December 2005 consisted of the following:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Prepaid expenses	874	422
Prepaid current income tax	586	224
Other receivables	821	606
Other taxes prepaid	359	2
Receivables on transactions with promissory notes	-	4,431
Total	**2,640**	**5,685**

10. LOANS ISSUED

Loans issued as of 30 June 2006 and 31 December 2005 consisted of:

	Interest rate	Currency	30 June 2006 '000 USD	31 December 2005 '000 USD
Bank Tower LLC	3.0%	RUR	2,499	2,318
Bank Tower LLC	10.0%	RUR	1,506	1,350
Penati 1	14.3%	RUR	21	22
Nekomercheskoe Partnyorstvo "Blagoustroystvo Kottedzhnogo posyolka "Pestovo"	7.5%	RUR	10,157	-
Promissory notes of Novorizhskiy LLC	8.5%	RUR	3,400	-
Total			**17,583**	**3,690**

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 30 June 2006 and 31 December 2005 consisted of the following:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Cash in banks, in RUR	25,248	16,728
Cash in banks, in other currencies	450	6,474
Short-term bank deposits	3,546	32,217
Petty cash	7	9
Total	**29,251**	**55,428**

Included into cash and cash equivalents as of 30 June 2006 is an amount of USD 3,005 thousand which was reserved at banks as of 31 December 2005 under currency control regulation. This amount was released from the reservation shortly after the reporting date.

12. SHARE CAPITAL

	30 June 2006	31 December 2005
Authorized		
Ordinary shares at par value of RUR 1,000 each	**9,750,976**	**4,875,488**

	'000 USD	'000 USD
Issued and fully paid		
30 June 2006: 4,875,488 ordinary shares at par value of RUR 1,000 each	165,581	
31 December 2005: 3,590,000 ordinary shares at par value of RUR 1,000 each		119,797
Treasury shares		
30 June 2006: 133,000 ordinary shares	(4,724)	-
Total	**160,857**	**119,797**

The extraordinary general meeting of shareholders held on 14 November 2005 approved a capital increase, whereby up to 1,285,488 new ordinary shares each with a nominal value of 1,000 RUR would be issued through an open subscription. The offering price was equal to the Rouble equivalent of USD 70 per share at the exchange rate of the Central Bank of the Russian Federation as of the date of placement. Shareholders were granted pre-emptive rights of purchase, pro rata to their existing shareholdings. On 26 January 2006 the Company registered a prospectus for the additional issue of shares with the Federal Financial Markets Services ("FFMS"). On 24 March 2006 the Company summarized the results of the pre-emptive rights participation and placed 1,251,424 ordinary shares to existing shareholders. The remaining 34,064 shares were placed through an open subscription. The proceeds from the additional issue of shares were USD 90 million. The issue was registered with the FFMS on 27 April 2006.

On 31 January 2006, the FFMS sanctioned circulation of 361,000 shares outside of Russia in addition to the sanction (3 November 2004) of 716,000 shares.

The extraordinary general meeting of shareholders held on 26 June 2006 approved a capital increase, whereby up to 4,875,488 new ordinary shares each with a nominal value of 1,000 RUR would be issued through an open subscription.

Treasury shares represent the cost of shares held by the Group to satisfy options under the Group's share option plan (Note 16).

13. ADDITIONAL PAID-IN-CAPITAL

Additional paid-in-capital as of 30 June 2006 and 31 December 2005 consisted of the following:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Premium arising on issue of shares	67,415	22,876
Less: Underwriting fees	(3,349)	(3,349)
Less: Legal and consulting fees	(713)	(503)
Share option (Note 16)	3,230	-
Acquisition of treasury shares	(4,586)	-
Total	**61,997**	**19,024**

14. LAND UNDER CONSTRUCTION REVALUATION RESERVE

	2006 '000 USD	2005 '000 USD
At 31 December	69,368	23,247
Revaluation surplus on land	34,298	30,483
Deferred tax liabilities arising on revaluation of land (Note 17)	(9,806)	(7,316)
Release of revaluation on assets disposed off	(1,068)	-
Release of deferred tax liability on revaluation of assets disposed off	256	-
At 30 June	**93,048**	**46,414**

15. MINORITY INTEREST

	'000 USD
At 31 December 2005	5,901
Minority interest in subsidiary's revaluation surplus for the period	6,562
Minority interest in net loss of subsidiary for the period	(178)
At 30 June 2006	**12,285**

16. SHARE OPTION PLAN

The Group has established an equity-settled share option plan. The Group grants to certain employees an annual opportunity to purchase ordinary shares at a fixed price equal to USD 49.75 per share conditional on the employee remaining in the entity's employ for at least one year after the exercise date. The number of share options that can be purchased by employees during 2006-2008 amounts to 133,000 per year.

	30 June 2006 options
Outstanding at the beginning of the period	-
Granted during the period	399,000
Outstanding at the end of the period	**399,000**
Exercisable at the end of the period	-

The Group recognized a total cost of USD 3,230 thousand for the six-months ended 30 June 2006 (Note 13). The weighted average remaining contractual life is 2.26 years.

17. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations which may differ from International Financial Reporting Standards. During the six months ended 30 June 2006 and 2005 the applicable Russian tax rate for profits other than on state securities was 24%.

The Group is subject to certain permanent tax differences due to the fact that certain expenses are not deductible and certain income is not taxable under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 30 June 2006 and 31 December 2005 relate mostly to different methods of income and expense recognition as well as to the recorded values of certain assets.

Temporary differences as of 30 June 2006 and 31 December 2005 comprise:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Deductible:		
Loss carry forward	12,788	8,966
Property, plant and equipment	4,932	2,674
Other payables and accrued expenses	1,135	1,773
Other receivables and prepaid expenses	599	430
Effect of foreign currency translation of other assets	12,525	495
Total deductible	**31,979**	**14,338**
Taxable:		
Land under construction and land held for resale	228,711	187,465
Payable to customers under construction contracts	44,761	34,455
Other receivables and prepaid expenses	1,528	2,098
Investment property	94,974	29,566
Property, plant and equipment	727	4,719
Effect of foreign currency translation of other assets	111	576
Total taxable	**370,812**	**258,879**
Net taxable	(338,833)	(244,541)
Deferred income tax liability (at 24%)	(83,083)	(59,276)
Deferred income tax asset (at 24%)	1,763	586
Net deferred income tax liability	(81,320)	(58,690)

Relationships between tax expenses and accounting profit for the six months ended 30 June 2006 and 2005 are explained as follows:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Profit before income taxes	**29,163**	**6,230**
Statutory tax rate	24%	24%
Theoretical tax at the statutory tax rate	6,999	1,495
Tax on dividends from Russian subsidiary	168	-
Tax effect of other permanent differences	(1,010)	513
Income tax expense	**6,157**	**2,008**
Income tax expense		
Deferred income tax expense	3,391	1,851
Current income tax expense	2,766	157
Income tax expense	**6,157**	**2,008**

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Deferred income tax liabilities		
At the beginning of the period	59,276	12,801
Increase in deferred tax charged to income statement	4,568	1,766
Increase in deferred tax charged to equity (Note 14)	9,806	7,316
Acquisition of subsidiaries (Note 30)	9,433	8,928
At the end of the period	**83,083**	**30,811**
Deferred income tax assets		
At the beginning of the period	586	469
Increase / (decrease) in deferred tax charged to income statement	1,177	(85)
At the end of the period	**1,763**	**384**

18. LONG-TERM LOANS

Long-term loans as of 30 June 2006 and 31 December 2005 consisted of the following:

	Currency	Interest rate	30 June 2006 '000 USD	31 December 2005 '000 USD
JSCB ROSBANK	USD	11%	50,000	50,000
JSCB Savings bank of the Russian Federation	USD	11%	22,250	23,500
ING Bank N.V.	USD	9.125%	150,000	150,000
Prepaid credit account maintenance fees	USD		(1,526)	(2,098)
Total			**220,724**	**221,402**

As of 30 June 2006 the shares of JSC Hotel Novoslobodskaya and building with a book value of USD 35,620 thousand were pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 5).

As of 30 June 2006 the 100% stake in Martemianovo LLC and land under construction with a book value of USD 60,878 thousand was pledged as collateral under the loan received from JSCB ROSBANK (Note 8).

Long-term loans as of 30 June 2006 and 31 December 2005 are repayable as follows:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Within one year	2,500	1,500
In the second year	151,474	150,652
In the third to fifth years inclusive	69,250	70,750
Less: current portion of long-term loans (Note 19)	(2,500)	(1,500)
Total	**220,724**	**221,402**

19. SHORT-TERM LOANS AND ACCRUED INTEREST

Short-term loans and accrued interest as of 30 June 2006 and 31 December 2005 consisted of the following:

	Interest rate	30 June 2006 '000 USD	31 December 2005 '000 USD
Current portion of the long-term loan from JSCB Savings bank of the Russian Federation (Note 18)	11%	2,500	1,500
Other loans		6	743
Accrued interest on long-term and short-term loans		3,002	2,062
Prepaid interest on loans		-	(891)
Total		**5,508**	**3,414**

20. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as of 30 June 2006 and 31 December 2005 consisted of the following:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Trade payables to suppliers and service providers	15,681	3,696
Accounts payable to employees	2,364	1,543
Accounts payable on acquisition of subsidiaries	1,731	11,057
Advances received	1,228	1,277
Other accounts payable and accrued expenses	1,672	218
Total	**22,676**	**17,791**

21. REVENUE UNDER CONSTRUCTION CONTRACTS

Revenue under construction contracts for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Revenue under contracts for the construction of cottages	16,639	22,669
Revenue under contracts for the construction of infrastructure and others	4,383	-
Total	**21,022**	**22,669**

22. COST OF CONSTRUCTION CONTRACTS

Cost of construction contracts for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Cost of contracts for construction of cottages (Note 8)	7,797	12,455
Cost of contracts for construction of infrastructure and others	4,284	-
Total	**12,081**	**12,455**

23. COST OF RENTAL SERVICES

Cost of rental services for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Property tax	125	135
Public utilities	89	101
Repairs and maintenance	66	53
Rent expense	44	27
Other expenses	44	7
Total	**368**	**323**

24. COST OF HOTEL SERVICES

Cost of hotel services for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Payroll	1,632	1,119
Management fees	793	812
Depreciation	650	540
Materials	627	579
Property tax	425	430
Payroll taxes	342	339
Bank fee for credit cards processing	154	182
Laundry expenses	116	108
Insurance	101	72
Repairs and maintenance	98	385
Commissions	87	130
Professional services	73	131
Communication and TV expenses	62	45
Security expenses	55	71
Decoration expenses	24	20
Other expenses	322	386
Total	**5,561**	**5,349**

25. COST OF OTHER SERVICES

Cost of other services for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Professional services	846	-
Bank charges	201	-
Payroll	92	81
Repairs and maintenance	31	41
Security expenses	21	23
Depreciation of fixed assets	4	2
Other expenses	447	21
Total	**1,642**	**168**

26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Payroll	3,043	2,153
Brokerage fees	658	1,004
Depreciation and amortization	387	424
Advertising	368	265
Other operating taxes	457	16
Payroll taxes	439	201
Professional services	326	225
Property tax	227	81
Security expenses	189	72
Rent expense	90	11
Insurance	69	27
Bank charges	68	88
Public utilities	60	52
Repairs and maintenance	57	36
Management fees	12	-
Other expenses	786	272
Total	**7,236**	**4,927**

27. INTEREST INCOME

Interest income for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Interest on bank deposits	599	346
Interest on loans issued	397	253
Other interest income	2,143	-
Total	**3,139**	**599**

28. INTEREST EXPENSE

Interest expense for the six months ended 30 June 2006 and 2005 consisted of the following:

	Six months ended 30 June 2006 '000 USD	Six months ended 30 June 2005 '000 USD
Interest on bank loans	10,935	2,357
Cost of maintenance of credit accounts	573	-
Interest on other loans	2	160
Total borrowing costs	11,510	2,517
Less: amounts included in the cost of qualifying assets	(6,085)	(830)
Total	**5,425**	**1,687**

29. EARNINGS PER SHARE

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

	Basic			Diluted		
	Weighted average number of shares outstanding during the period	Net profit for the period attributable to share-holders of the parent company ('000 USD)	Earnings per share (in USD)	Weighted average number of shares outstanding during the period	Net profit for the period attributable to share-holders of the parent company ('000 USD)	Earnings per share (in USD)
Six months ended 30 June 2006	4,342,812	23,184	5.34	4,342,812	23,184	5.34
Six months ended 30 June 2005	3,590,000	4,222	1.18	3,590,000	4,222	1.18

30. ACQUISITION OF SUBSIDIARIES

In June 2006 the Group acquired a 100% interest in Eko-Center LLC for USD 30.9 million, which was paid in cash. This transaction has been accounted for using the purchase method of accounting.

In June 2006 the Group acquired a 100% interest in Onigomati Investment Limited for USD 1 thousand which remained unpaid as of 30 June 2006. This transaction has been accounted for using the purchase method of accounting. No goodwill was recognized on this transaction as the consideration given was equal to the fair value of the identifiable assets and liabilities at the date of the acquisition.

At the dates of the acquisition:

	'000 USD
Net assets acquired:	
Investment property (Note 7)	40,336
Cash and cash equivalents	1,480
Capital advances	9
Value added tax recoverable	2
Other receivables and prepaid expenses	1
Deferred tax liabilities (Note 17)	(9,433)
Trade and other accounts payable	(1,477)
Tax liabilities, other than income tax liabilities	(7)
Short-term loans and accrued interest	(6)
Current income tax	(4)
Total	**30,901**
Consideration given:	
Satisfied by cash	(30,900)
Accounts payable on acquisition of subsidiaries	(1)
Total	(30,901)
Net cash outflow arising on acquisition:	
Cash consideration	(30,900)
Cash and cash equivalents acquired	1,480
	(29,420)

31. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

(f) Parties with joint control over the Group;

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties as of 30 June 2006 and 31 December 2005:

'000 USD	**30 June 2006**		**31 December 2005**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Trade accounts receivable (entities with joint control or significant influence over the entity)	-	1,584	73	1,116
Prepaid interest (entities with joint control or significant influence over the entity)	-	-	891	891
Other receivables and prepaid expenses (entities with joint control or significant influence over the entity)	146	2,640	122	5,685
Loans issued (entities with joint control or significant influence over the entity)	4,005	17,583	3,668	3,690
Cash and cash equivalents (entities with joint control or significant influence over the entity)	20,483	29,251	53,393	55,428
Long-term accounts payable (entities with joint control or significant influence over the entity)	10,024	10,024	8,840	8,840
Long-term loans (entities with joint control or significant influence over the entity)	50,000	220,724	50,000	221,402
Accrued interest (entities with joint control or significant influence over the entity)	1,010	3,002	-	2,062
Payables to customers under construction contracts (key management personnel of the entity or its parent)	512	40,729	381	33,573
Advances received from customers for land plots (key management personnel of the entity or its parent)	2,318	7,539	2,453	2,453
Accounts payable to employees (key management personnel of the entity)	1,853	2,364	803	1,543
Advances received (entities with joint control or significant influence over the entity)	-	1,228	268	1,277

Included in the consolidated income statement for the six months ended 30 June 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Six months ended 30 June 2006		**Six months ended 30 June 2005**	
'000 USD	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Revenue under construction contracts	1,410	21,022	184	22,669
(entities with joint control or significant influence over the entity)	1,401			
(key management personnel of the entity or its parent)	9		184	
Revenue on rendering other services (entities with joint control or significant influence over the entity)	286	1,964	241	332
Commission on received bank guarantee (entities with joint control or significant influence over the entity)	201	201	17	17
Bank charges (entities with joint control or significant influence over the entity)	62	68	74	88
Interest income (entities with joint control or significant influence over the entity)	463	3,139	-	599
Interest expense (entities with joint control or significant influence over the entity)	-	5,425	447	1,687
Other expenses (entities with joint control or significant influence over the entity)	-	1,016	74	340
Key management personnel compensation:				
Payroll and related taxes	1,747	5,548	1,223	2,405
Insurance	15	170	13	28
	1,762	**5,718**	**1,236**	**2,433**

During the six months ended 30 June 2006 the Group accrued loan interest of USD 2,720 thousand which was capitalized in the cost of long-term assets. During the six months ended 30 June 2006 the Group paid interest to a related party of USD 823 thousand.

During the six months ended 30 June 2006 the Group paid commission of USD 202 thousand on a bank guarantee received.

32. BUSINESS SEGMENTS

Financial information relating to the Group's consolidated segments are as follows for the six months ended 30 June 2006 and 2005:

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Eliminations	Group's total Six months ended 30 June 2006 '000 USD
REVENUE							
External sales	22,420	-	1,720	9,701	3,340	-	37,181
Inter-segment sales	-	-	325	11	-	(336)	-
Total revenue	22,420	-	2,045	9,712	3,340	(336)	37,181
RESULT							
Segment profit before income tax	26,005	-	4,493	4,468	214	-	35,180
Unallocated expenses, net							(6,017)
Profit before income tax							29,163
Segment capital additions	138,147	19,697	-	70	-	-	157,914
Unallocated capital additions							155
Capital additions							158,069
Segment depreciation expense	227	-	-	650	-	-	877
Unallocated depreciation expense							143
Depreciation expense							1,020

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Eliminations	Group's total Six months ended 30 June 2005 '000 USD
REVENUE							
External sales	22,669	-	1,524	8,138	332	-	32,663
Inter-segment sales	-	-	154	16	-	(170)	-
Total revenue	22,669	-	1,678	8,154	332	(170)	32,663
RESULT							
Segment profit before income tax	8,081	-	953	1,257	42	-	10,333
Unallocated expenses, net							(4,103)
Profit before income tax							6,230
Segment capital additions	126,424	15,700	-	36	-	-	142,160
Unallocated capital additions							40
Capital additions							142,200
Segment depreciation expense	286	-	-	540	-	-	826
Unallocated depreciation expense							140
Depreciation expense							966

Financial information relating to the Group's consolidated segments is as follows as of 30 June 2006 and 31 December 2005:

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Group's total 30 June 2006 '000 USD
OTHER INFORMATION						
Segment assets	503,024	126,591	36,432	43,613	1,603	711,263
Unallocated assets						74,021
Eliminations						(4,238)
Total assets						781,046
Segment liabilities	293,193	73,744	4,490	15,981	348	387,756
Unallocated liabilities						9,198
Eliminations						(4,238)
Total liabilities						392,716

	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Group's total 31 December 2005 '000 USD
OTHER INFORMATION						
Segment assets	369,501	81,670	32,903	40,503	1,085	525,662
Unallocated assets						78,122
Eliminations						(5,022)
Total assets						598,762
Segment liabilities	212,046	47,717	6,531	23,776	2,003	292,073
Unallocated liabilities						61,474
Eliminations						(5,022)
Total liabilities						348,525

33. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of 30 June 2006 material commitments of the Group for capital expenditures outstanding under concluded contracts approximated USD 170 mln. The Group has early termination rights for all concluded capital construction contracts.

Operating leases – The Group's future minimum rental payments under non-cancelable operating leases are as follows:

	30 June 2006 '000 USD	31 December 2005 '000 USD
Not later than 1 year	166	257
Later than 1 year but not later than 5 years	338	318
Later than 5 years	16	94
Total operating lease payment	**520**	**669**

Commitment under long-term contracts – In May 2005 the Group won the tender for participation as a general designer (vendor) under the government contract for the feasibility study of investments into the construction of the Central Ring Road of the Moscow region. The tender was organized by the Federal state enterprise "Directorate of the state customer for the realization of the subprogram "Highways" of the federal target program "Modernization of the Russian Transport System (2002-2010 years)" of the Federal Highway Agency. For participation in the tender and further realization of this project an international consortium was organized by the Company's subsidiary IR Development Ltd (as a Lead Manager), JSC Lengiprotrans and OBERMEYER Planen Beraten GmbH. The government contract with the Federal state enterprise "Highways of Russia" of the Federal Highway Agency of the Ministry of Transport of the Russian Federation for the feasibility study was signed by IR Development Ltd on behalf of the international consortium on 14 June 2005. The total contract amount comprises RUR 279,855 thousand (USD 10,335 thousand at the exchange rate of the Central Bank of the Russian Federation as of 30 June 2006), including VAT. The Group recognized revenue of USD 1,374 thousand for the six months ended 30 June 2006. As of 30 June 2006 total cumulative revenue recognized under the contract amounted to USD 5,743 thousand.

To secure the principal commitment of IR Development Ltd under the government contract, on 15 June 2005 the Group obtained an irrevocable bank guarantee from JSCB ROSBANK amounting to RUR 279,855 thousand (USD 10,335 thousand at the exchange rate of the Central Bank of the Russian Federation as of 30 June 2006). The guarantee is valid until 15 August 2006 (Note 34). Quarterly bank commission comprises 1% of the guarantee amount. Pavlovo LLC serves as a counter guarantor under the bank guarantee.

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

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

Pensions and retirement plans – Employees receive pension benefits from the Russian Federation in accordance with the laws and regulations of the country. As of 30 June 2006 and 31 December 2005 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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

34. SUBSEQUENT EVENTS

In July 2006 the Group acquired a 99% interest in Novorizhskiy LLC together with its 100% subsidiary LLC Lukino-Invest for USD 10.8 million. LLC Lukino-Invest owns approximately 43 hectares of land at Novorizhskoye Shosse. As of 30 June 2006 the Group held a 1% interest in Novorizhskiy LLC, carried at a cost of USD 10 thousand on the balance sheet.

In July 2006 the Group attracted the loan from ING Bank (Eurasia) ZAO and ING Bank N.V in the amount of USD 50,000 thousand at a rate of LIBOR plus 2% (with acceleration to LIBOR plus 3.25% in October 2006) per annum. The loan is unsecured and matures in April 2007.

In July 2006 the Group attracted a loan from JSCB ROSBANK of USD 25,000 thousand at a rate of 11% per annum. The loan matures in July 2011 and is secured by the pledge of land plots with buildings with a book value of USD 15,500 thousand as of 30 June 2006.

In July 2006 the Group signed an agreement with the City of Moscow represented by the Department of State and Municipal Property for lease for the remaining 20% of the Novotel Hotel premises for 15 years. The lease is scheduled to expire in 2021. Annual lease payments will approximate RUR 52 mln (USD 1.9 mln at the exchange rate of the Central Bank of the Russian Federation as of 30 June 2006), including VAT.

On 7 August 2006 the Group signed a Memorandum of Understanding for the acquisition of a 100% interest in Bank Tower LLC together with a 40% interest in Sakharova Business Plaza LLC, which is to be completed not later than 29 December 2006.

On 10 August 2006 the Company registered a prospectus for the additional issue of 4,875,488 shares (Note 12) with the FFMS. The FFMS have sanctioned circulation of additional 2,335,841 shares outside Russia.

On 14 August 2006 the Group prolonged an irrevocable bank guarantee from JSCB ROSBANK until 15 October 2006. The new guarantee amounts to RUR 129,156 thousand (USD 4,770 thousand at the exchange rate of the Central Bank of the Russian Federation as of 30 June 2006). Other terms of the bank guarantee remained the same (Note 33).

35. RISK MANAGEMENT POLICIES

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

Credit risk – The Group is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group does not hedge its credit risk.

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

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

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

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

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

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

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

The Group minimizes to the extent possible any disproportion between the currencies of its major income and expense items, between its assets and liabilities. The Group at the moment maintains US dollar as the currency for most of its contracts with service providers, tenants, buyers and sellers of property and debt instruments outstanding. If due to the Russian Law any settlement is to be in Russian Roubles, the Group still sets prices and values in US Dollars and performs the settlements in Russian Rouble equivalents, calculated on the basis of US Dollar price or value using the prevailing exchange rate of the Central Bank of the Russian Federation. The Group does not hedge its currency risk.

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

All the Group's debt instruments outstanding as of 30 June 2006 are fixed rate. The Group plans to mainly borrow at fixed rates in the future. For any future borrowing at variable interest rate the Group will consider the possibility of hedging its interest risk.

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

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

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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