RURIC

RUssian Real estate Investment Company

Annual report 2004

Annual report 2004

The Board of Directors and the Managing Director for Russian Real Estate Investment company AB hereby present the following annual report and consolidated accounts.

Unless otherwise stated, all accounts are reported in thousands of Swedish kronor (TSEK).

Report by the Board of Directors

Ownership structure

Russian Real Estate Investment Company AB (Ruric AB) started operations in April, 2004.

A new share issue in the spring of 2004 brought in SEK 250 million before transaction costs. The founders, E. Öhman J:or AB, Cancale Förvaltnings AB and East Capital Holdings AB, together own 400,000 shares of class A representing 4,000,000 votes. 2,100,000 shares of class B representing 2,100,000 votes are held by approx. 200 other shareholders.

The Group's operations

The Company's objects are to acquire, renovate manage, lease and sell properties in St. Petersburg, Russia, focusing on commercial premises of the highest standard in the most favourable areas, thereby contributing positively to the tenants' businesses. The Company's vision is to be the leading property company in the St. Petersburg region.

Financial objective: To create and realize value for Ruric's shareholders through dividends and growth in value. Ruric's objective is to generate return on shareholders' equity of at least 20% at a conservative level of gearing.

The strategy is to identify properties with great potential in the central parts of St. Peterburg, create the appropriate acquisition structure and acquire at the best price. After renovation, commercial premises of the highest standard are offered (primarily office premises) to tenants seeking the best premises available in the most favourable areas who are willing to pay for such.

Ruric will implement this strategy by taking advantage of the lack of information in the local property market and an inefficient capital market in order to identify and carry out acquisitions at attractive prices in combination with key factors such as:

- local prescence and external support
- strong local network among market players and authorities
- organization that enables quick investment decisions and quick implementation
- acquisition strategy focused on undercapitalized objects

Organization

Russian Real Estate Investment Company AB is the parent company in a group consisting of a total of five Swedish and three Russian companies (LLC, Limited Liability Company). The companies are registered in Stockholm and St. Petersburg, respectively.

During the autumn, Russian Real Estate Investment Company AB established a branch office in St. Petersburg with Russian employees, who are responsible for the operations in Russia including the Russian subsidiaries.

The Managing Director of the Group assumed his post in December and an office for the Company's management has been established in a rented premises in Stockholm. The financial and administrative functions are outsoursed.

The work of the Board of Directors

The Board of Directors consists of four board members and two deputies. In addition to the initial meeting of the board, meetings take place at least four times every calender year. Out of five recorded meetings during 2004, one took place in St. Petersburg. The work of the Board of Directors was primarily focused on the initial establishment of the Company and decisions regarding property investments.

The work of the Board of Directors as well as the allocation of responsibilities between the Board of Directors and the Managing Director is governed by procedural rules, which are uppdated annually.

Investments

During 2004, Ruric carried out one direct property acquisition, Fontanka Embankment 13, and entered into agreements regarding additional acquisitions.

An acquisition of the shares in the company that owns and manage the property located at ul. Dostoyevskogo 19/21 took place at the end of December 2004.

All acquisitions (investments in two properties) directly or through shareholdings in companies were made in USD and amounted to SEK 41 million on December 31, 2004.

- Fontanka nab. 13 (4,000 sq. m.)
- ul. Dostoyevskogo 19/21 (3,268 sq. m.)

The cost of rebuilding and renovation requirements during 2005 for these properties is estimated at USD 4.7 million.

The acquisition process for office space at the Nevsky Prospekt 11 property was commenced in 2004. The investment, including renovation which was completed during the year, amounts to about SEK 7.3 million (USD 1.3 million) for an area of 410 sqm. A rental agreement with tenant is valid as from December 1, 2004. As of the balance sheet date, the implementation of formal owner registration had yet not been completed.

An agreement was entered at the end of 2004 regarding a fourth property acquisition of 5,804 sqm at the adress 9-ya liniya 34, with initial investments of approx. SEK 30 million (USD 4.2 million) and an expected renovation cost of SEK 22 million (USD 3.2 million). The transaction was pending as of the balance sheet date.

Negotiations regarding a fifth acquisition of about SEK 50 million including renovation costs were initiated during the last few months of the year. An analysis of additional potential investments has been initiated.

Profit trend

During its first financial year, the Compnay established an organization and carried out acquisitions but has not sold any property nor has it had any significant rental revenues.

Therefore, for the financial year 2004 the Group reports negative operating income of SEK 3.4 million. Net financial items were positive and amounted to SEK 0.9 million. Profit after tax for 2004 amounted to SEK –2.0 million. Profit for the year was negatively affected by SEK 2.2 million due to exchange rate differences which have been accounted for in the income statement.

Financial position and liquidity

During the spring 2004, the Company carried out a a new share issue which brought in SEK 241 million after transaction costs. The Group has no outstanding loans.

During the year, SEK 1.4 million was transferred to the branch office in St. Petersburg for operating expenses.

At the end of the year, the Group had SEK 177.0 million in liquid funds.

Events after the end of the financial year

At meeting on January 14, 2005, the Board of Directors:

- resolved to convene an annual general meeting on March 9, 2005
- established instructions for the Managing Director, as well as an Information Policy and Equality Policy and Insurance policy

The principal owners will propose to the annual general meeting of shareholders that Göran Blomgren be elected to the Board of Directors.

An Extraordinary General Meeting on February 8, 2005 resolved to issue debentures totalling SEK 500 million, and debt instruments, combined with detachable options (for stock option program among other things).

During January 2005, the Company inititated the work to create a company structure whereby every acquired property is owned by a Russian company (a separate company for each property), which in turn is owned by a Swedish subsidiary (a separate company for each property) of the parent company Russian Real Estate Investment Company AB. This will provide a high level of flexibility in connection with future sales.

Future development

It is expected that St. Petersburg will continue to show a positive development in many respects, through its geographical location and its role as the second largest city in Russia. Of course, this depends on the overall economic development and the political situation in the country as a whole.

The property market in the central parts of the city is expected to show continued imbalance between the demand for, and supply of, high standard office premises resulting in at least stable or increased rental levels as well as a good level of growth in value. Additional office space continually becomes available but, as a consequence of the low original levels, the total number of premises in relation to the city's population will still be small for several years compared to what is typically the case in other big cities. However, due to the lack of transparency in the market it is difficult to quantify in detail available areas, demand, occupancy rates, rental levels and growth in the value of commercial premises in the city.

It is the Board of Directors' and the Managing Director's opinion that Ruric will be able to successfully operate in this environment. The strategy is set and our present property portfolio provides a solid base on which to achieve and exceed the Company's objectives and proves that the Company should continue its operations as previously.

Completed acquisitions and renovations of these properties, together with ongoing negotiations regarding new acquisitions, means that the Company soon will be fully invested. With new capital, initially in terms of a planned bond issue, new investment opportunities can be exploited. The objective is to secure a yield (rental revenues minus operating expenses in relation to investment) of at least 15%.

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The parent company

Operating profit for the parent company (which includes the branch office in St. Peterburg) was SEK –2.2 million. Profit after tax was SEK –1.9 million. Exchange rate differences of SEK –3.4 million have been reported in the income statement.

The parent company owns the Group's share (50%) in the company that owns the property at ul. Dostoyevskogo 19/21, which was acquired in the end of December 2004.

Liquid funds in the parent company amounted to SEK 170.9 million as of December 31.

Proposed alloccation of loss

Net loss for the year, SEK	–1,943,648
	–1,943,648

The Board of Directors proposes that the loss of 1,943,648 be carried forward in new accounts.

The Group's total loss amounts to SEK 2,041,000. No allocation to restricted reserves is required.

The Group's income statement

	Note	2004-01-20–2004-12-31
Net revenues	1	23
		23
Operating costs		
Other external costs	5	–2,694
Personnel expenses	3,4	–742
Depreciation of tangible assets	11	–5
		–3,441
Operating profit	1,2,6	**–3,418**
Profit/loss from financial investments		
Other interest income and similar profit/loss items	8	2,975
Interest expenses and similar profit/loss items	6,9	–2,026
		949
Profit after financial items		**–2,469**
Tax on profit for the year	10	506
Net loss for the year		**–1,963**
Profit per share before dilution		–0.79
Profit per share after dilution		–0.79

The Group's balance sheet

	Note	2004-12-31
ASSETS		
Fixed assets		
Tangible assets	11	
Equipment, tools and facilities		58
Rebuilding in progress		22,443
		22,501
Financial assets		
Other long-term securities	12,14	18,268
Other long-term receivables	12	8,596
Deferred tax asset	10	729
		27,593
Total fixed assets		**50,094**
Current assets		
Short-term receivables		
Other receivables		11,743
Prepaid expenses and accred income	15	398
		12,141
Short-term investments		481
Cash and bank balances		176,991
Total current assets		**189,613**
TOTAL ASSETS		**239,707**
EQUITY & LIABILITIES		
Equity	16	
Restricted equity		
Share capital (2,500,000 shares with nominal value of SEK 2)		5,000
Other restricted reserves		236,000
		241,000
Accumulated deficit		
Non-restricted equity		–78
Net loss for the year		–1,963
		–2,041
Total equity		**238,959**
Minority interest	13	0
Current liabilites		
Accounts payable		35
Tax liabilities		223
Other liabilities		244
Accrued expenses and prepaid income	17	246
Total current liabilities		**748**
TOTAL EQUITY & LIABILITIES		**239,707**
Pledged assets		None
Contingent liabilities		None

The Group's cash flow statement

	2004-01-20– 2004-12-31
Operating activities	
Operating income	–3,418
Adjustments for items not affecting cash flow	
Depreciation	5
Exchang-rate losses	–78
	–3,491
Interest received	2,949
Cash flow from opearting activities before changes in working capital	**–542**
Change in working capital	
Increase in receivables	–12,115
Increase in accounts payable	35
Increase in other current operating liabilities	490
Cash flow from operating acitivities	**–12,132**
Investment activities	
Acquisition of associated companies	–18,268
Acquisition of tangible assets	–22,506
Investments in other financial assets	–10,622
Increase in short-term investments	–481
Cash flow from investing activities	**–51,877**
Financing activities	
Share issue	241,000
Cash flow from financing activities	**241,000**
Cash flow for the year	**176,991**
Liquid assets at the start of the period	**–**
Liquid assets at the end of the period	**176,991**

The parent company's income statement

	Note	2004-01-20– 2004-12-31
Net revenues	1	–
Operating costs		
Other external costs	5	–1,427
Personnel expenses	3,4	–721
Depreciation of tangible assets	11	–5
		–2,153
Operating profit	**1,2,6**	**–2,153**
Profit/loss from financial investments		
Loss from participation in Group companies	7	–235
Other interest income and s imilar profit/loss items	8	3,223
Interest expenses and similar profit/loss items	6,9	–3,442
		–454
Loss before tax		**–2,607**
Tax on profit for the year	10	663
Net loss for the year		**–1,944**
Loss per share before dilution		–0.78
Loss per share after dilution		–0.78

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The parent company's balance sheet

	Note	2004-12-31
ASSETS		
Fixed assets		
Tangible assets	11	
Equipment, tools and installations		58
		58
Financial assets		
Participations in Group companies	12,13	400
Claim on Group companies		39,757
Other long-term securities	12,14	18,268
Other long-term receivables	12	8,596
Deferred tax asset	10	663
		67,684
Total fixed assets		**67,742**
Current assets		
Short-term receivables		
Claim on Group companies		562
Other receivables		201
Prepaid expenses and accred income	15	184
		947
Cash and bank balances		170,883
Total current assets		**171,830**
TOTAL ASSETS		**239,572**
EQUITY & LIABILITIES		
Equity	16	
Restricted equity		
Share capital (2,500,000 shares with nominal value SEK 2)		5,000
Share premium reserve		236,000
		241,000
Accumulated deficit		
Net loss for the year		–1,944
		–1,944
Total equity		**239,056**
Current liabilites		
Accounts payable		35
Loans to Group companies		235
Other liabilities		46
Accrued expenses and prepaid income	17	200
Total current liabilities		**516**
TOTAL EQUITY AND LIABILITIES		**239,572**
Pledged assets		None
Contingent liabilities		None

The parent company's cash flow statement

	2004-01-20– 2004-12-31
Operating activities	
Operating income	–2,153
Adjustments for items not affecting cash flow	
Depreciation	5
	–2,148
Interest received	2,635
Cash flow from opearting activities before changes in working capital	**487**
Change in working capital	
Increase in accounts payable	35
Increase in other operating receivables	–359
Increase in other operating liabilities	481
Cash flow from operating acitivities	**644**
Investment activities	
Acquisition of participation in Group companies	–635
Acquisition of participation in associated companies	–18,268
Investments in other financial assets	–51,795
Acquisition of tangible assets	–63
Cash flow from investing activities	**–70,761**
Financing activities	
Share issue	241,000
Cash flow from financing activities	**241,000**
Cash flow for the year	**170,883**
Liquid assets at the start of the period	**–**
Liquid assets at the end of the period	**170,883**

Notes

Accounting and valuing policies

General

The annual report has been prepared in accordance with the Swedish Annual Accounts Act and the recommendations and statements of the Swedish Accounting Standards Board in applicable parts in accordance with the description of the Company's valuing principles below.

Consolidated accounts

The consolidated accounts comprise the parent company, subsidiaries in which the parent company directly or indirectly has a holding of more than 50% and over which the parent company has a controlling influence, as well as associated companies, in which the parent company holds shares representing at least 20% but not more than 30% of the votes.

The Company applies the acquisition method in consolidated accounting. This means that assets and liabilities in acquired subsidiaries have been reported at the market value that has provided the basis for determination of the purchase price for the shares. The Group's equity comprises the parent company's equity and that part of the equity in the subsidiaries that has arisen after the acquisitions.

The minority's share of the profit after tax is reported as a minority interest.

All foreign operations (branch and foreign subsidiaries) have been classified as integrated. The income statements have been converted to the average exchange rate for the period in which the companies have been active. Monetary items in the balance sheet have been converted at the balance sheet date rate of exchange whereas non-monetary items have been converted at the rate of exchange at the time of purchase. The translation difference that arises has been reported in the Group's income statement.

Valuing policies

Revenues

Revenues are accounted for to the extent it is probable that the financial benefits will be incorporated in the Group and the revenues can be reliably estimated.

Interest income is reported when earned.

Rental revenues are reported linearly in accordance with the conditions stated in the lease agreements.

Receivables

Receivables have been stated at the nominal value or the amount expected to be received, whichever is lower.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency have been converted at the balance sheet date rate of exchange. Exchange rate profits and losses on operating receivables and liabilities are incorporated in the operating profit. Profits and losses on financial receivables and liabilities are reported as financial items.

Tangible assets

Tangible assets are reported at acquisition value less accumulated depreciation and any write-downs. A straight-line depreciation method is used over their estimated useful life as follows:

Equipment, tools and facilities	3–5 years

Taxes including deferred tax

Deferred tax is reported according to the balance sheet method. This means that deferred tax is calculated for all identified temporary differences, as of the balance sheet date, between values for tax purposes and book values of assets and liabilities, respectively.

Deferred tax assets are accounted for in terms of all temporary differences and unutilized losses carried forward to the extent it is probable that future profits subject to tax will be available, against which the temporary differences or unutilized loss carry-forward can be set off.

The reported values of the deferred tax assets are estimated at each balance sheet date and reduced to the extent it is no longer probable that sufficient profit subject to tax will be available in order to use the whole or parts of the deferred tax assets.

Deferred tax assets and tax liabilities are calculated on the basis of the tax rates that can be expected to be valid in the period when the receivables and liabilities are settled, based on those tax rates (and tax regulations) that are valid, or in practice are valid, on the balance sheet date.

Note 1 Segment information

The Group

Net revenues and operating profit are distributed over geographical markets as follows:

	2004	
	Net revenues	Operating profit
Sweden	–	–1,011
Russia (including branch)	23	–2,444
Total	23	–3,455

The parent company

Net revenues and operating profit are distributed over geographical markets as follows:

	2004	
	Net revenues	Operating profit
Sweden	–	–1,010
Russia (branch)	–	–1,180
Total	–	–2,190

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Note 2 Purchases and sales between Group companies

Of the year's purchases, 0 is referable to other Group companies.

Note 3 Average number of employees

	2004 Number of employees	Of which men
The parent company		
Sweden	0,1	100%
Russia (branch)	4,1	62%
Total	4,2	63%
Subsidiaries		
Russia	0,0	100%
Group, total	4,2	63%

Note 4 Salaries, other remuneration and social secrurity costs

	2004 Salaries and other remunerations	Social security costs (of which pension expenses)
The parent company	623	90 (53)
Subsidiaries	15	6 (0)
Group, total	638	96 (53)

Salaries and other remuneration distributed per country and between board members among others and employees.

	2004 Board of Directors and Managing Director (of which bonus and the like)	Other employees
The parent company		
Sweden	69 (–)	–
Russia (branch)	–	554
The parent company, total	69	554
Foreign subsidiaries		
Russia	– (–)	15
Foreign subsidiaries, total	–	15
Group, total	69	569

Note 4 Salaries, other remunerations and social security costs, continued

Board of Directors, Managing Director and other senior management personnel have been compensated during the year as follows:

	Basic salary/ fee for the Board	Pension expenses	Total
Chairman of the Board	–	–	–
Other board members	–	–	–
Managing Director	60	12	72
Other senior management (1 person)	331	24	355
Total	391	36	427

Remuneration to the Board amounts to SEK 400,000 to be distributed amongst the board members. No payment was made during 2004.

At present there is a part-time employment agreement between the Company and its Managing Director. The agreement is valid until May 31, 2005, and cannot be terminated by the Company. The Managing Director has the right to terminate the agreement before expiry with two months notice. No severance pay is payable. A new agreement shall have been entered into by March 31, 2005, at the latest.

Note 5 Information about the auditor's fees

The auditor's fees and disbursements

	2004 The Group	The parent company
Ernst & Young AB		
accounting assignments	73	73
other assignments	37	37
Total	110	110

Note 6 Exchange rate differences

	2004 The Group	The parent company
Exchange rate profits	1,573	1
Exchange rate losses	–3,579	–3,443
Total	–2,006	–3,442

In addition to the above exchange rate losses, losses of SEK –151,000 have been reported in the operating profit for the Group and SEK –1,000 for the parent company.

Note 7 Income from participation in Group companies

	2004 The parent company
Write-down due to additional funding	–235
Total	–235

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Note 8 Other interest income and similar profit/loss items

	2004 The Group	The parent company
The Group		
Interest	2,975	3,223
Total	2,975	3,223

Note 9 Other interest expenses and similar profit/loss items

	2004 The Group	The parent company
The Group		
Interest	20	–
Exchange rate differences	2,006	3,442
Total	2,026	3,442

Note 10 Tax on profit for the year

	2004 The Group	The parent company
Actual tax cost	223	–
Deferred tax revenue due to unutilized losses carried forward	–729	–663
Reported tax cost	–506	–663

The difference between the Group's tax cost and tax cost based on current tax rate consists of the following components:

	2004 The Group	The parent company
Reported profit before tax	–2,469	–2,607
Tax according to current tax rate	–654	–730
Tax effect from non-deductible costs:		
Write-down of participations in Group companies	–	66
Other non-deductible items	149	1
Reported tax cost	–506	–663

The current tax rate for the Group is 26.5% and 28% for the parent company.

The Group's temporary differences have resulted in deferred tax receivables regarding the following items:

	2004 The Group	The parent company
Deferred tax receivables		
Unutilized losses carried forward	729	663
Deferred receivables	729	663

Note 11 Tangible assets

Equipment, tools and facilities

	2004 The Group	The parent company
Opening acquisition value	–	–
Investments	63	63
Closing accumulated acquisition values	63	63
Opening depreciation	–	–
Depreciation for the year	–5	–5
Closing accumulated depreciation	–5	–5
Closing residual value according to plan	58	58

Rebuilding in progress

Opening acquisition value	–	–
Investments	22,443	–
Closing accumulated acquisition values	22,443	–
Closing residual value according to plan	22,443	–

Note 12 Financial assets

Participation in subsidiaries

	2004 The parent company
Opening acquisition value	–
Investments	635
Closing accumulated acquisition values	635
Opening write-downs	–
Write-downs for the year	–235
Closing accumulated write-downs	–235
Closing book value	400

Other shares and participations

	2004 The Group	The parent company
Opening acquisition value	–	–
Investments	18,268	18,268
Closing accumulated acquisition values	18,268	18,268
Closing book value	18,268	18,268

Other long-term receivables

Opening acquisition value	–	–
Investments	8,596	8,596
Closing accumulated acquisition values	8,596	8,596
Closing book value	8,596	8,596

Note 13 Participation in Group companies

	Share of equity	Share of votes	Number of shares	Book value
Russian Real Estate Investment Company Sw 1 AB	100%	100%	1,000	100
Limited Liability Company Ruric 1	100%	100%	100,000	-
Limited Liability Company Ruric 2*)	99.9997%	99.9997%	349,099	-
Limited Liability Company Ruric 3*)	99.9997%	99.9997%	100	-
Russian Real Estate Investment Company DVA AB	100%	100%	100,000	100
Russian Real Estate Investment Company TRI AB	100%	100%	100,000	100
Russian Real Estate Investment Company Chetire AB	100%	100%	100,000	100
Total				400

*) According to local regulations a certain share must be owned by a local party.

Note 13 Participation in Group companies, continued

Information about the subsidiaries corporation/registration numbers and registered offices:

	Corp/Reg.nr	Reg. office
Russian Real Estate Investment Company Sw 1 AB	556653-9721	Stockholm
Limited Liability Company Ruric 1	104 785 503 9210	St Petersburg
Limited Liability Company Ruric 2	104 785 509 3846	St Petersburg
Limited Liability Company Ruric 3	104 785 508 6916	St Petersburg
Russian Real Estate Investment Company DVA AB	556662-7161	Stockholm
Russian Real Estate Investment Company TRI AB	556662-7286	Stockholm
Russian Real Estate Investment Company Chetire AB	556662-7971	Stockholm

Note 14 Other long-term security holdings

	Share of equity	Number of shares	Book value
Directly owned			
Closed Joint-Stock Company Grifon	50%	50	18,268

Information about corporation number and registered office:

	Corp/Reg.nr	Reg. office
Closed Joint-Stock Company Grifon	103 784 300 2834	St Petersburg

Note 15 Prepaid expenses and accrued income

	2004	
	The Group	The parent company
Prepaid leasing fees	45	45
Accrued interest income	26	26
Other items	327	113
Total	398	184

Note 16 Equity

	Share capital	Restricted reserves	Non-restricted equity	Total equity
The Group				
Equity as of January 20, 2004	–	–	–	–
Exchange rate differences that are not accounted for in the income statement	–	–	−78	−78
Profit for the year	–	–	−1,963	−1,963
Share issue	5,000	245,000	–	250,000
Transaction costs	–	−9,000	–	−9,000
Equity as of December 31, 2004	5,000	236,000	−2,041	238,959

	Share capital	Share premium reserve	Non-restricted equity	Total equity
The parent company				
Equity as of January 20, 2004	–	–	–	–
Profit for the year	–	–	−1,944	−1,944
Share issue	5,000	245,000	–	250,000
Transaction costs	–	−9,000	–	−9,000
Equity as of December 31, 2004	5,000	236,000	−1,944	239,056

Note 17 Accrued expenses and prepaid income

	2004	
	The Group	The parent company
Other items	246	200
Total	246	200

Note 18 Transactions with closely-associated parties

In accordance with the Company's Information Memorandum from April, 2004, as well as an extraordinary general meeting on February 8, 2005:

- E. Öhman J:or Fondkommission AB, Corporate & Structured Finance received payment during 2004 amounting to SEK 8,972,000 as part of disbursement for advice in connection with, and performance of the initial procurement of capital.
- E. Öhman J:or Fondkommission AB, Corporate & Structured Finance, has been offered the opportunity to subscribe for 52,000 options on market terms and conditions
- Alex Dymov, the manager of the Company's branch office in Russia, will be assigned 20,500 options free of charge and has been offered the opportunity to subscribe for 20,500 options on market terms and conditions
- Each 2005/2007 option shall entitle the holder to subscribe for one class B share in Ruric AB at a nominal value of SEK 2 and subscription for new shares in Ruric AB through the exercise of options can take place commencing May 2, 2007 up to and including December 28, 2007 at a subscription price (cash) of SEK 150 per share.

In addition, E. Öhman J:or Fondkommission AB, Corporate & Structured Finance, will be retained in 2005 for advice about, and assistance in the implementation of, the bond issue which the extraordinary meeting of the shareholders held on Februrary 8, 2005 authorised the Board of Directors to carry out.

Stockholm, February 25, 2005

Nils Nilsson
Chairman of the board

Tom Dinkelspiel

Risto Silander

Peter Elam Håkansson

Thomas Zachariasson
Managing Director

My auditor's report was submitted on 25 February 2005

Björn Fernström
Authorized Public Accountant

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Audit Report

To the annual meeting of the shareholders of Russian Real Estate Investment Company AB
Corporate identity number 556653-9705

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Russian Real Estate Investment Company AB for the year 2004-01-20–2004-12-31. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. I also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the loss of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm February 25, 2005

Björn Fernström
Authorized Public Accountant

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