Annual Report 2006
Russian Real Estate Investment Company

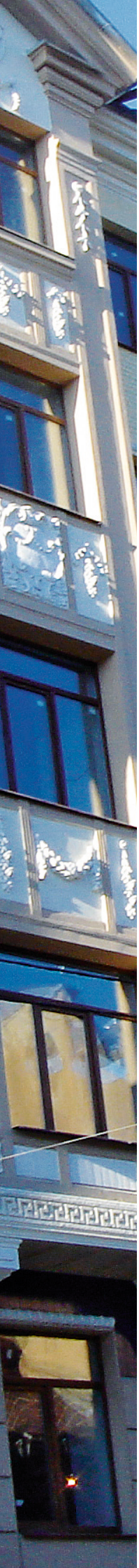


Table of Contents

Ruric in brief

Business concept and vision

Ruric's business concept is to acquire, develop, lease, and manage properties in Saint Petersburg, Russia, focusing on commercial premises of the highest quality in attractive locations which thereby positively contribute to the tenants' business operations. The company has as its vision to become the leading property company in central Saint Petersburg.

Long-term financial goals

Ruric's financial goals are to create and realise value for Ruric's shareholders through dividends and growth in value. Ruric's goal is to generate a return on shareholders' equity of at least 20 per cent at a conservative level of gearing and thereby obtain a direct return from the property portfolio of at least 15 per cent.

Strategy

The strategy of identifying properties with a large development potential in the central areas of Saint Petersburg and, following renovation, offering these high-quality commercial premises is achieved through a combination of key factors such as:

- local presence and external support;
- strong local network among market players and governmental authorities;
- an organisation which makes possible quick investment decisions and rapid implementation;
- an acquisition strategy focused on properties with a large conversion need and primarily through "off-market sourcing".

History

Ruric was founded in Sweden on 20 January 2004 and, in conjunction therewith, the company obtained MSEK 240 through a direct placement of shares in order to invest in commercial properties in Saint Petersburg. Thereafter, several bond and stock issues have been carried out. In the spring of 2006, Ruric's stock was listed on First North on the Stockholm Stock Exchange. Ruric has thus far invested in eight properties of which one has been sold.

The year in brief

2006 was marked by strong growth in Ruric's property portfolio. The book value of the properties increased from MSEK 281.2 to MSEK 1,254.9 of which MSEK 337.5 related to new acquisitions and MSEK 466.9 to investments in existing properties. The total area of the properties is anticipated, following conversion and renovation, to amount to approximately 225,000 sq.m. of which approximately 191,000 sq.m. is anticipated to be lettable space.

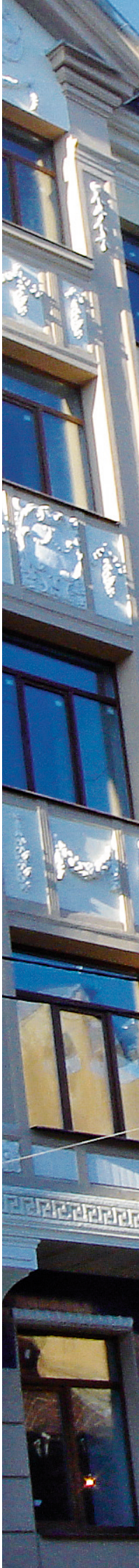
At the expiry of the period, Ruric owned seven properties in central Saint Petersburg. The book value of the property holdings has developed during the year as follows:

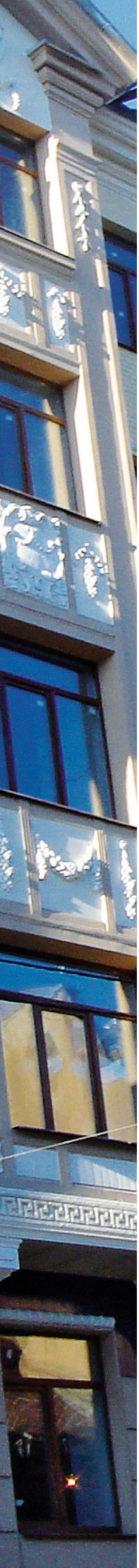
	MSEK
31 December 2005	281.2
Acquisition (2 properties)	337.5
Investments in own properties	466.9
Sales (1 property)	–10.6
Revaluation	182.6
Depreciation	–2.7
31 December 2006	1,254.9

During the year, three office buildings and part of a retail space building were made ready with lettable space of approximately 14,200 sq.m. and a rental value amounting to approximately MSEK 46.

Growth during 2006 has been financed through the issuance by Ruric of bonds in the amount of MSEK 452 and the implementation of two stock issues with pre-emption rights for shareholders in the amount of MSEK 249 and MSEK 152.

The property market in Saint Petersburg in 2006 was characterised by large price increases. The price of private residences, in the opinion of some, has increased as much as 70 per cent. On the commercial market, the trend has also been upwards.





Comments by the Managing Director

Strong expansion

It is with pride that I summarise 2006 as the year in which Ruric definitively established itself as a large and important player on the Saint Petersburg property market, Russia's second largest city and Europe's fourth largest city. We completed three office buildings, carried out extensive renovation work on future retail buildings and, above all, acquired two large properties to develop. This property portfolio will, following completion of conversion and extension, cover a total building area of approximately 225,000 sq.m.

Ruric's business concept is to acquire, develop, lease out and manage properties in Saint Petersburg, a city with high rental levels in relation to investment levels. In a complex Russian environment, to be able to acquire properties at attractive prices and carry out conversion under time and financial constraints is, however, only a possibility for a few. Ruric has been successful through a strong focus on the strategy of identifying and purchasing buildings in the city's central areas with great potential, but also often with complicated ownership and always with great renovation and conversion needs and by purchasing, managing, and controlling construction work with its own in-house resources in order to be able to offer completed premises of the highest quality.

The property holdings

Properties acquired during 2004–2005 were completed in 2006 (or will be completed in 2007) with a total area of approximately 50,000 sq.m.:

- Three office properties were completed at the end of 2006 after extensive conversion and extension and will now offer 17,000 sq.m. of total space which will generate good rental income in 2007.
- An extension of approximately 4,000 sq.m. has commenced in an existing office property with a current total space of 3,000 sq.m.
- A renovation property of approximately 15,000 sq.m. is being extended to up to 20,000–25,000 sq.m., if possible, and will be made ready for retail space use in various stages starting with the last quarter of 2006 and up through the third quarter of 2007.

In 2006, the company increased holdings of development properties by approximately 175,000 sq.m.:

- During the spring, an agreement was entered into with the Russian army which defines the rights and obligations which Ruric now has regarding the Moika/Glinki property. The property, which is located in a very good location in Saint Petersburg next to the beautiful Moika Canal and with the Mariinsky Theatre, the Yusupov Palace and the New Holland island as neighbours, consists of 3 hectares of land and 47,000 sq.m. of building space with the possibility to expand to approximately 150,000 sq.m.
- In August, rights of development and use were acquired with a remaining term of slightly more than 48 years for a building located at Fontanka 57, alongside the Fontanka River in central Saint Petersburg. The building was originally designed by Carlo Rossi, the leading architect in the city during the first decades of the 1800's, and is expected, after extensive renovation and extension work to consist of approximately 25,000 sq.m. of office space, shops, and garage parking.

The book value of the company's properties has therefore increased during the year from approximately MSEK 281 to MSEK 1,255, of which approximately MSEK 338 consists of acquisitions, MSEK 467 of conversion work, and MSEK 183 of revaluation, and otherwise of divestments and depreciation.

In light of the rising property prices in the city, it is my belief that there is a large, hidden value in our development projects which, of course, thus far has only been reported as acquisition and building amounts. We buy "off market" at competitive prices and build attractive end products, thereby creating value.

Commencing in 2007, we will apply the IFRS auditing principles, whereupon all management properties will be reported at market value.

A market which continues to be attractive

The property market in the city demonstrated continued imbalance in 2006 between supply and demand for office and retail premises of high quality, resulting in attractive rental levels. On the residential side, the same imbalance exists and it is reported that sales prices for apartments during the year increased by approximately 70 per cent.

We are naturally not alone on this exciting market. There are many others who are already here and more who want to join. This leads to increased competition for attractive renovation properties as well as rising prices to complete and place properties into operation.

Admittedly, new space is continuously coming onto the market and, within certain parts of the city, there will be additions which are clearly apparent. However, as a consequence of the low starting point, the total number of completed and attractive premises will nonetheless be small in relation to the size of the city for several years. Complicated ownership, historical protection, strict building regulations, infrastructural deficiencies, a slow-moving bureaucracy, etc. and local financing possibilities which are still incomplete limit the range of properties offered. The demand by domestic and foreign companies and organisations is strong and the occupancy rate in high-quality offices and shop premises is therefore very high.

We are continually evaluating new acquisition possibilities with respect to development projects. Many such properties are offered at prices which far exceed what we believe is the right price. However, with the acquisitions in 2006 – Moika/Glinki and Fontanka 57 – Ruric has demonstrated that, through sound local knowledge and a good reputation, we can acquire properties "outside the market" at attractive prices.

A strong local organisation is the key to success

Ruric's Russian organisation was significantly strengthened and developed during 2006, primarily within construction project management area for the purpose of handling conversion in the most efficient manner. We have introduced fixed-price agreements in all building contracts at the same time as our project engineers coordinate in detail the work with construction companies in order to achieve a favourable outcome for both parties.

Therefore, through a firm control of procurement and follow-up of the work done by construction companies, we have been able, within the replacement construction at the Moika/Glinki project, to keep up a pace which means that the work is anticipated to be completed as early as the autumn of 2007, i.e. earlier than previously anticipated. The project involving our development of the Moika/Glinki property is in progress and discussions are being carried out with the city architect and other governmental representatives.

A look into the future

At the time of this writing, I am summarising my impressions after recently having returned from the MIPIM property trade fair in Cannes. The fact that Ruric was an official member of the City of Saint Petersburg's exhibition with the presentation of our Moika/Glinki project in the presence of, among others, Russian Minister of Trade German Gref, is evidence of the excellent position we have established through our success in 2006. We also had an opportunity to present and discuss with leading representatives of the city's administration our other projects and, above all, our ambitions for continued growth.

In 2007 we will, among other things, complete the replacement construction under the Moika/Glinki agreement and commence our own development of the property. We will complete conversion and extension construction of our building in the Apraksin Dvor area and continue with conversion and extension work on the building at Fontanka 57. The completed office buildings will generate good rental income at pace with the moving in of tenants. In addition, corresponding development on Apraksin Dvor will take place during the year.

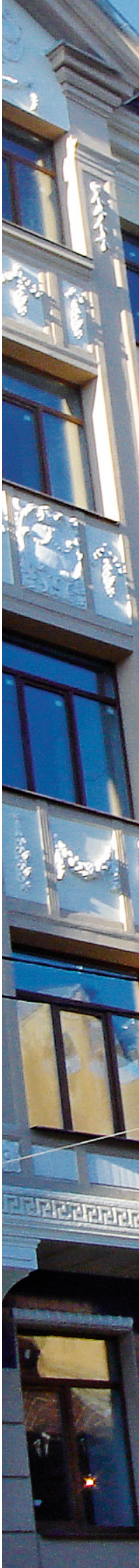
Ruric enjoys a unique position as a foreign company with a well-established foothold on the Saint Petersburg property market. We generate a sound inflow of attractive investment possibilities which is continuously assessed. Our demonstrated ability to carry out development projects in a complex environment facilitates our relations with the city's authorities and business partners and suppliers. Our ambition is to continue to grow.

A very sound foundation has thus now been laid from which to continue our work. We will contribute to the city's attractiveness by offering modern and functional premises for tenants. We will offer stimulating and challenging work for our employees and we will create value for our shareholders.

Stockholm, March 2007

Best regards

Thomas Zachariasson
Managing Director



Ruric's shares and shareholders

Ruric's class B shares are traded under the short name, RURI, on First North on the Stockholm Stock Exchange. A trading block comprises 25 shares but trading can also take place in a lower number of shares. Ruric's sponsor is Öhman, which is a member of, and has an agreement with, the Stockholm Stock Exchange. Öhman has also undertaken to be a liquidity guarantor in conjunction with trading in the company's shares on First North. As liquidity guarantor, Öhman must guarantee a purchase as well as sales volume each of at least four trading blocks so that a difference of a maximum of 4 per cent is obtained between the buying and selling price calculated on the selling price.

All of the company's shares are denominated in SEK and have a quotient value of SEK 2 per share. At the shareholders' meeting, each class A share in Ruric entitles the holder to ten votes and each class B share in Ruric entitles the holder to one vote. Each shareholder entitled to vote may vote for the entire number of shares held by such shareholder without limitation. Each share provides the shareholder with shareholder pre-emption rights in conjunction with new issues of shares, warrants, and convertibles in relation to the number of shares he owns and carries equal rights to participation in profit distributions and to any surplus in conjunction with liquidation.

On 31 December 2006, the share capital in Ruric amounted to SEK 9,328,340 divided into 4,664,170 shares, of which 664,000 shares were class A shares and 4,000,170 were class B shares.

Changes in the share capital

Since Ruric was formed in January 2004, the share capital has changed in accordance with the following table:

Year	Transaction	Quotient value, SEK	Change in number of shares	Total number of shares	Increase in share capital, SEK,	Total share capital, SEK	Subscription price, SEK
2004	formation of the company	100	1,000[1)]	1,000	100,000	100,000	100
2004	split, 50 to 1		49,000	50,000	–	100,000	–
2004	directed issue	2	2,450,000[2)]	2,500,000	4,900,000	5,000,000	100
2006	share issue subject to shareholder pre-emption rights	2	1,500,000[3)]	4,000,000	3,000,000	8,000,000	160
2006	directed issue[4)]	2	55,800	4,055,800	111,600	8,111,600	160
2006	share issue subject to shareholder pre-emption rights	2	608,370[5)]	4,664,170	1,216,740	9,328,340	250
	Summa			**4,664,170**		**9,328,340**	

1) All of which are class A shares.
2) Of which 350,000 are class A shares and 2,100,000 are class B shares
3) Of which 240,000 are class A shares and 1,260,000 are class B shares.
4) Relates to direct placement of shares which, in conjunction with the share issue subject to shareholder pre-emption rights carried out during the spring of 2006, was also made to holders of 2005/2007 options according to the applicable option terms and conditions.
5) Of which 96,000 were class A shares and 512,370 class B shares.

Outstanding warrants

The potential for dilution of the share capital exists through the 2005/2007 option programme, the 2006/2009 option programme and issued (listed) class A and B 2006/2007 warrants. Through these, the outstanding number of shares may increase by 82,400 class A shares and 597,220 class B shares.

Ownership

Since the founding of the company in 2004, the primary owners have been Cancale Förvaltnings AB, E. Öhman J:or. AB, and East Capital with a total share of the voting rights of 66.3 per cent as per 31 December 2006.

In addition to the shareholdings, on 31 December 2006 E. Öhman J:or AB held 30,000 2006/2007 A options, Cancale Förvaltnings AB held 30,000 2006/2007 A options, and East Capital held 20,000 2006/2007 A options and 43,000 2006/2007 B options.

E. Öhman J:or Fondkommission AB also held 52,000 2005/2007 options.

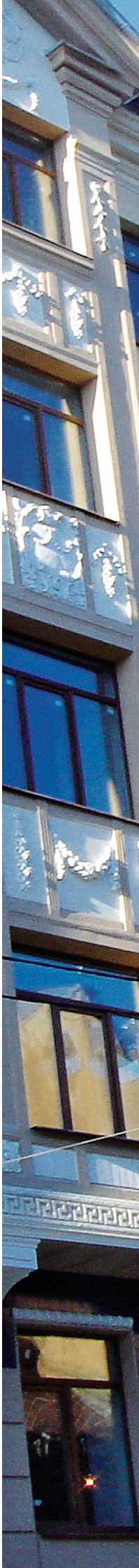
Shareholders on 31 December 2006	Class A shares	Class B shares	Percentage of shares	Total no. of shares	Percentage of voting capital
E. Öhman J:or AB	240,000	16,000	5.5	256,000	22.7
Cancale Förvaltnings AB	240,000		5.2	240,000	22.6
East Capital	184,000	395,600	12.4	579,600	21.0
Swedbank Robur Fonder		555,788	11.6	555,788	5.2
SSB Cl Omnibus		500,170	10.7	500,170	4.7
Stena Realty B.V		416,242	8.9	416,242	3.9
Bear, Sterns & CO		125,000	2.7	125,000	1.2
Länsförsäkringar Fastighetsfond		103,000	2.2	103,000	1.0
Aktiebolaget Boninvest		78,900	1.7	78,900	0.8
SIS Segaintersettle AG		66,813	1.4	66,813	0.6
Total, 10 largest shareholders	**664,000**	**2,257,513**	**62.3**	**2,921,513**	**83.6**
Other shareholders	–	1,742,657	37.7	1,742,657	16.4
Total	**664,000**	**4,000,170**	**100.0**	**4,664,170**	**100.0**

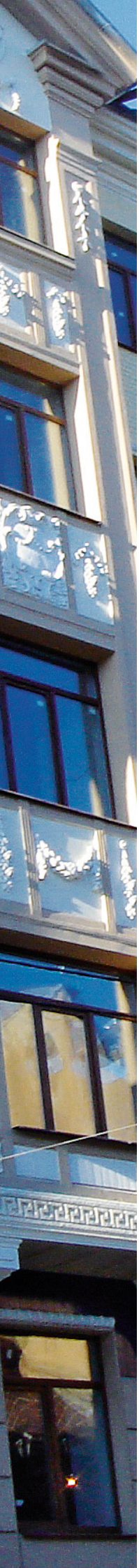
Size categories on 31 December 2006	Number of shareholders	Percentage of shareholders	Class A shares	Class B shares	Percentage of share capital	Percentage of voting capital
1–500	818	66.2		144,463	3.1	1.4
501–1,000,	139	11.2		107,364	2.3	1.0
1,001–5,000	206	16.7		460,620	9.9	4.3
5,001–10,000	24	1.9		170,229	3.6	1.6
10,001–15,000	11	0.9		132,252	2.8	1.2
15,001–20,000	9	0.7		163,850	3.5	1.5
20,001–	29	2.3	664,000	2,821,392	74.7	88.9
Total	**1,236**	**100.0**	**664,000**	**4,000,170**	**100.0**	**100.0**

Outstanding warrants on 31 dec 2006			Original subscription terms and conditions		Amended subscription terms and conditions[1]	
Series	Subscription-period	No. of warrants	Additional no. of shares upon subscription	Subscription price, SEK	Additional no. of shares upon subscription	Subscription price, SEK
2005/2007	2 May – 28 Dec. 2007	93,000	93,000	150.00	95,790	146.10
2006/2007 A[2]	1 – 29 June 2007	80,000	80,000	240.00	82,400	233.70
2006/2007 B[2]	1 – 29 June 2007	438,600	438,600	240.00	451,758	233.70
2006/2009	10 Aug. – 10 Sep. 2009	61,000	61,000	369.00	62,830	359.30
Total		**672,600**	**672,600**		**692,778**	

1) According to the warrant terms and conditions, a re-calculation is made both of the subscription price as well as the number of shares to which each warrant entitles the holder to subscribe in conjunction with a share issue subject to shareholder pre-emption rights.

2) The warrants were issued as part of the share issue subject to shareholder pre-emption rights in April/May 2006. The series 2006/2007 B options are traded on First North with 26 June 2007 as the final date for trading.





Market overview

Ruric is strongly dependent on the development of the Russian economy in general and Saint Petersburg's economy in particular. The Russian economy has demonstrated strong growth over recent years, stimulated by export growth primarily within the oil and gas sectors. Public data show a real growth in Russia's BNP of 7.2 per cent during 2004 and 5.5 per cent in 2005. According to forecasts by the IMF, the real BNP growth for 2006 is expected to amount to 5.2 per cent. This growth, in the interval 5.0–5.5 per cent, is anticipated to continue during 2007 and 2008 as well. Despite the strong growth, BNP per capita is still only approximately 13 per cent of the median value for the Euro area, which indicates considerable growth potential. Clear signs that the Russian economy is strengthening significantly are that the state budget has developed from a deficit of 4.2 per cent of BNP in the beginning of 2000 to a surplus of 7.4 per cent in 2005, and that inflation and government debt are decreasing significantly. The share of BNP for government debt is currently lower than 20 per cent which can be compared with 130 per cent in 1998. Considerable currency reserves mean, in practise, that Russia is a net lender.

Saint Petersburg was founded in 1703 and, with its approximately 5 million inhabitants, is Russia's second largest city. Today, the city is the fourth largest in Europe, after London, Moscow, and Paris. The location of the city on the Baltic makes it "Russia's window to Western Europe". The harbour is Russia's largest container harbour through which a very large portion of Russia's imports and exports pass. Saint Petersburg enjoys good connections to Finland and Sweden through roads and ferry traffic. The city also has an international airport. A large part of production derives from shipping operations, engineering, and the food industry.

The property market

The Russian property market is characterised by a very low degree of transparency and a relatively high degree of complexity. Privately owned properties are a phenomena which returned as late as approximately 15 years ago in conjunction with the fall of the Communist regime. The availability of commercial properties has been characterised by a will to rapidly meet a rising demand while awareness of prevailing international standards has often been limited.

Only during recent years has new construction met the demands of large international players intending to establish in Russia.

Another characteristic of the Russian property market is that new construction in most cases has been financed with domestic capital due to the fact that international investors have been hesitant due to political risks and corruption. The lack of, among other things, lease agreements with well-reputed tenants and at least mid-range lease terms has also meant that traditional international investors have had difficulty in locating properties which fulfilled their investment criteria.

The central areas of Saint Petersburg have a large portion of older buildings with strong cultural historical value which the city wishes to protect. The combination of a limited offering of office properties and the fact that even foreign companies have begun to establish subsidiaries/branch offices in Saint Petersburg has created a large demand for premises with high standards in central locations. Many large international corporations have established in Saint Petersburg, among them several automobile manufacturers. More interesting for Ruric is the fact that several large service companies in the accounting, consulting, and advertising fields, etc. have established a presence in central Saint Petersburg.

The city government in Saint Petersburg is investor-friendly and international investments are viewed particularly positively. One trend which has been discernible in recent years is privatisation. Privatisation is taking place, among other things, for the purpose of financing an expanded municipal infrastructure for which the need is great in Saint Petersburg, even when considered in relation to other Russian cities.

In light of the strongly growing economy, the great lack of high-quality business premises, the strong political support, and a growing confidence in the Russian legal system, among other factors, the interest in commercial properties has steadily increased over recent years.

The "Magnus" office building on 9-aya V.O. linia 34

The business

Business concept and overall goals and strategies

The company's business concept is to acquire, develop, lease, and manage properties in Saint Petersburg, Russia, focusing on commercial premises of the highest quality in attractive locations which thereby positively contribute to the tenants' business operations.

The company goal's is to become a leading property company in the Saint Petersburg region within its niche segment.

The strategy is to identify properties with large potential in Saint Petersburg's central areas, create suitable acquisition structures, and acquire and renovate at the best price. After renovation, the highest-quality commercial premises are offered (preferentially office and retail premises) to tenants seeking the best possible premises in attractive locations and who are willing to pay for them.

The acquisition strategy is focused on properties to which Ruric can contribute large added value and is implemented by Ruric benefiting from a lack of information on the local property market and an inefficient capital market in order to identify and carry out acquisitions at attractive prices. This is made possible through a strong local presence and good relationships with market players and governmental authorities.

Financial goals

Ruric's goal is to generate a return on shareholders' equity of at least 20 per cent at a conservative borrowing level and to obtain direct return from the property portfolio (rental income minus operating costs in relation to investment) of at least 15 per cent.

Fulfilment of goals

Returns on shareholders' equity must be viewed over a slightly longer perspective than the short time in which Ruric has been in existence thus far. The completed properties generate together initially less than 16 per cent direct return in relation to total investment.

Property portfolio

2006 was characterised by strong growth in Ruric's property portfolio. The book value of the properties increased from MSEK 281.2 to MSEK 1,254.9 of which MSEK 337.5 related to new acquisitions and MSEK 466.9 to investments in existing properties. The total area of the properties, after conclusion of conversion and renovation, is expected to amount to approximately 225,000 sq.m. of which approximately 191,000 sq.m. is anticipated to be lettable space.

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Management portfolio

Towards the end of the year, three office buildings and part of a retail building were completed with lettable space of approximately 14,200 sq.m. At the end of the

Address	Lettable space[1)]	Est. annual, rental value MSEK[3)]	Status
Fontanka 13	2,915	13.5	Completed
9-aya V.O. Linia 34	6,688	19.0	Completed
Sredny Prospekt 36/40	4,907	13.4	Completed
Ul. Dostoyevskovo 19/21 phase 1	2,957	7.7	Completed
Ul. Dostoyevskovo 19/21 phase 2	2,994	7.8	Q2 2007
Apraksin Dvor 15/16/33 (65% owned)	20,000	84.0	Q4 2006–Q3 2007
Fontanka 57	21,000	88.0	Q4 2008
Ul. Glinki 2/Moika 96	130,000–135,000	[2)]	2010–2011
Total	**191,461**		

1) After planned conversion and extension.
2) A portion (residential apartments) will be sold.
3) In conjunction with full occupancy.

year, the completed lettable space was approximately 18,3000 sq.m. (3,100), which means that, commencing in 2007, Ruric has entered a management stage for a part of the property portfolio. For Ruric's organisation, this means new challenges in the form of attending to tenants and cost-efficiently managing improved properties, and in this way continuously increasing direct return.

Leasing

The demand for high-quality premises in Saint Petersburg is great. Ruric's property holdings of both properties which have been fully converted as well as project properties are located in such locations that the economic occupancy rate should be almost 100 per cent. Ruric's strategy of owning the highest-quality properties means that the company turns to somewhat larger, sometimes international tenants which often means that there can be a certain amount of delay between the completion of the property and occupancy.

Of Ruric's completed space of 18,300 sq.m., 14,100 sq.m. (3,100) was contracted at year end. Of the completed unlet space, 840 sq.m. was contracted after the expiry of the year, among others to IBM. In addition, an additional slightly more than 2,000 sq.m. of retail space was contracted for space which is not yet completed. These will be ready for tenant conversions in the summer. The rental levels for leased space is in the interval 300–732 USD/sq.m. per year, where the highest levels relate to retail space in the Apraksin Dvor area.

The table below describes the property portfolio as it is planned to be completed.

The project portfolio

In Russia, it is common that property transactions with public bodies are entered into in the form of an investment agreement in which the rights to the property do not vest in the purchaser until after the purchaser has fulfilled certain undertakings towards the seller or regarding the property.

In the Apraksin Dvor area, which is centrally located and a very lively trading area, Ruric has entered into investment agreements which give the company the rights to two properties which are primarily retail properties. The total investment is estimated to amount to MSEK 415, after the exercise of an option to acquire the remaining 35 per cent, and to be completed by the third quarter of 2007. The rental levels in the area amount to 300–900 USD/sq.m. for shops and 250–400 USD/sq.m. for office space, with the highest rents on the bottom floor and the rents decreasing on the upper floors.

Along the Fontanka river, directly adjacent to the Apraksin Dvor area, lies Ruric's most recent acquisition from August 2006 located at Fontanka 57. The property, which is a financial lease, is estimated to have a lettable area of slightly more than 21,000 sq.m. Work is currently underway to evaluate which mix of premise types will be included in this beautiful and extremely well located property.

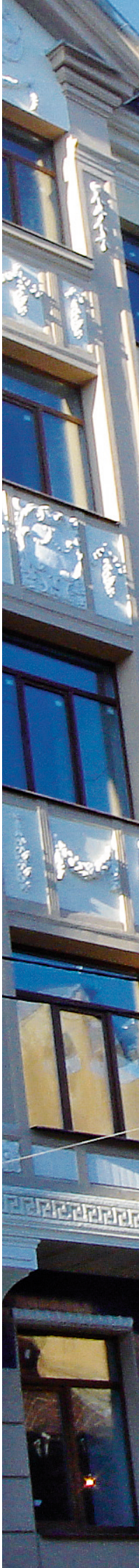
The Moika/Glinki development property

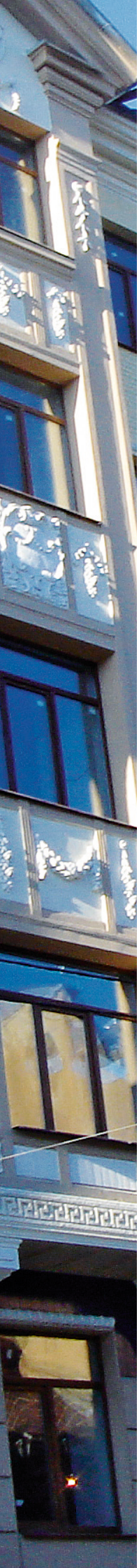
Ruric has also entered into an investment agreement regarding development rights to Moika/Glinki. Including the planned development of this property, the investment

Property portfolio following completion

		Total		Lettable building space					
Property	Acquisition date	space, sq.m.	Total	of which, office space	of which, shops	of which, residential	of which, warehouse	of which, garage	of which, misc.
Fontanka 13	12 Nov. 2004	3,771	2,915	2,915					
9-aya V.O. Linia 34	22 Feb. 2005	8,141	6,688	5,896	677		115		
Sredny Prospekt 36/40	11 May 2005	5,184	4,907	3,622	1,285				
Ul. Dostoyevskovo 19/21[1]	10 Dec. 2004	6,957	5,951	5,951					
Apraksin Dvor 15/16/33[2]	14 Dec. 2005	25,000	20,000	2,000	17,000		1,000		
Fontanka 57[3]	15 Aug. 2006	25,500	21,000	7,000	11,000			3,000	
Ul. Glinki 2/Moika 96[4]	1 May 2006	150,000	130,000	9,000	27,000	56,000		30,000	8,000
Total		**224,553**	**191,461**	**36,384**	**56,962**	**56,000**	**1,115**	**33,000**	**8,000**

1) Space indications relate to space after completed extension construction (end of Q2 2007).
2) After completed extension construction (the space is, however, dependent on the final building permit) and based on the exercise of an option to acquire the remaining 35 per cent of Apraksin Dvor 15/16/33.
3) The total building space includes planned expansion after conversion and extension. The acquired building space amounts to 18,356 sq.m. Lettable building space is anticipated to constitute 85 per cent of the total building space.
4) The total building space includes planned expansion after conversion and extension. The acquired building space amounts to 47,000 sq.m. Lettable building space is anticipated to constitute 90 per cent of the total building space. Other space relates to hotels, restaurants, gyms, exhibition premises, etc.





means that Ruric's total property holdings based on building space will more than triple.

The undertakings which Ruric has given are extensive in relation to the initial acquisition amount and include, among other things, relocalisation of current operations. Relocalisation means that Ruric is responsible for the financing of new construction at a different location. The initial acquisition amount was approximately MSEK 90. Together with all of the undertakings according to the investment agreement, the investment in the development rights (i.e. the investment excluding costs for projecting and development of the property) is estimated to amount to approximately MSEK 540.

Moika/Glinki is a relatively expansive block, slightly more than 3 hectares, situated in central Saint Petersburg's western portion, which belonged to the Russian army. In the area, with a total existing floor space of approximately 47,000 sq.m., there are several university buildings which had been used for training Russian officers as well as residences and barracks for the students. Otherwise, the area consists primarily of open plots of land which can be developed.

Moika/Glinki lies in a beautiful area where one primarily finds residential homes and cultural institutions. Adjacent to the eastern side there is a public park and the northern side abuts the Moika Canal. West of, and directly adjacent to, Moika/Glinki lies the Mariinsky Theatre, one of Russia's most important cultural venues. Work is being carried out there with extension construction in two stages which will further increase the flow of traffic and the attraction of this area. Ruric regards the western portion of Saint Petersburg's city core as very interesting in light of several new building projects. Recently, a large area which lies north west of Moika/Glinki, New Holland, was privatised. The intention is that this area will be developed, resulting in a number of new hotels, shops, and exhibition premises. Even the infrastructure will be improved within a short time since, according to information from the city, a subway station will be constructed with an entrance in the vicinity of Moika/Glinki.

Ruric will have the possibility to demolish large portions of the existing buildings since only a few smaller free-standing buildings are culturally protected. With respect to construction rights for increasing the total space, Ruric's estimate is that an increase of up to approximately 100,000 will be granted. This will take place, in part, through the development of unimproved space and, in part, through new buildings with several floors replacing existing buildings. Consequently, the total area is planned to amount to approximately 150,000 sq.m. How large a portion of this space will be retail or lettable space depends on what type of properties are constructed. Preliminarily, the lettable space amounts to 130,000–135,000 sq.m.

Ruric has not yet determined in detail which type of properties the development may involve. This final decision will be preceded by thorough analyses, among other things concerning factors such as costs of development, development of rental levels for various types of properties and suitable risk levels for the total property portfolio. Taking into consideration the location of the property, however, it is probable that a not insignificant portion of residences will be built at the same time as the portion of office space is believed to be relatively small. Even parking, hotels, and shops will be included.

As a consequence of the fact that the planned development has not yet been determined in detail, the estimated cost for the future conversion is very uncertain. A preliminary estimate of this cost amounts to approximately MSEK 2,000. The total cost is also dependent on the scope of the development which has not yet been finally determined. Based on this estimate, the total investment, including the initial acquisition amount and the cost for undertakings and development would be less than SEK 20,000/sq.m. for the total space.

The project planning has reached the detailed conceptual stage and is anticipated to proceed to project and construction procurement not later than Q3 2007. The Board of Directors' preliminary assessment is that conversion and extension of Moika/Glinki will be commenced during the second half of 2007 and continue for at least two to three years.

Valuation

The property portfolio has been valued as per 31 December 2006 by the AVERS Valuation Centre appraisal institute. The valuation is set forth in the table below.

Valuation method

For the determination of the market value of the properties, the average of three different valuation methods has been used (except in cases where reasonable cause exists to exclude any method):

Cash flow method – used in order to calculate the value of a property by discounting the calculated future cash flow from the property;

This method means:

- A forecast of the property's use within the forecast period which is determined by the appraiser;
- An estimate of the future sales price at the end of the forecast period (final value);
- Current value calculation of the periodic net cash flow and final value in today's money.

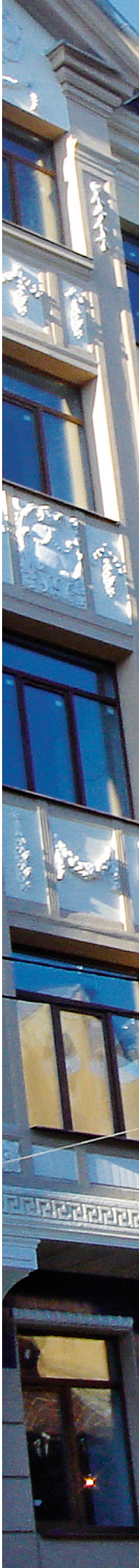
The cost method – is based on the reconstruction principle, i.e. that a rational purchaser would not pay more for a property than what it costs to construct a similar building within a reasonable period of time.

The value of a property in conjunction with the use of the cost method is calculated as the sum of ownership rights to the building (building complex) and ownership rights (or lease rights/site leasehold rights) to the property;

The location price method means that comparisons are made with directly comparable purchases and sales which have taken place within a reasonable period of time. The value is thus determined at what a typical purchaser of the property with similar quality and usability actually paid.

Property	Est. market-value, MUSD	Comments
Fontanka 13	17.6	
9-aya V.O. Linia 34	22.5	
Sredny Prospekt 36/40	18.3	
Ul. Dostoyevskovo 19/21	18.7	including out-building
Apraksin Dvor 15/16/33	18.6[1)]	according to original investment agreement and in condition 'as is'; under renovation
Fontanka 57	29.2	
Ul. Glinki 2/Moika 96	125.0	
Total	**249.9**	

1) The value is estimated by the Board of Directors to be significantly higher upon completion.



Board of Directors and management

Nils Nilsson
Collonge-Bellerive, Switzerland, born 1961.
Chairman of the Board of Directors, elected to the Board of Directors in 2004.
Other current positions: Member of the Board of Directors of Nordnet Holding AB, Nordnet Family AB, Nordnet Bank AB, 11 Real Asset Fund AB, Malka Oil AB and Director of Bellatin SaRL, Luxemburg and Hun Research PTY LTD, Singapore.
Previous positions over the past five years: Founder, member of the Board of Directors and managing director of Orc Software AB.
Shares in Ruric: 120,000 class A shares via ownership share in Cancale Förvaltnings AB.
Warrants in Ruric: 15,000 class A 2006/2007 warrants through ownership share in Cancale Förvaltnings AB.

Tom Dinkelspiel
Saltsjöbaden, Sweden, born 1967.
Member of the Board of Directors, elected to the Board of Directors in 2004.
Other current positions: Managing Director, E. Öhman J:or Fondkommission AB, Managing Director and Group CEO of the Öhman Group and member of the Board of Directors of companies included in the group. Member of the Board of Directors of Chevrone AB, KOGMOT AB, Konsumentkredit i Sverige AB, MPS Holding AB, 11 Real Asset Fund AB and the Swedish Securities Dealers Association. Alternate member of the Board of Directors of the Gummesson Group AB.
Previous positions over the past five years: Member of the Board of Directors of Svenska Fondhandlareföreningen Service AB, Rebbur AB and Brunnswick Emerging Markets AB.
Shares in Ruric: 4,606 class B shares.
Warrants in Ruric: 500 class B 2006/2007 warrants.

Jens Engwall
Stockholm, Sweden, born 1956.
Member of the Board of Directors, elected to the Board of Directors in 2006.
Other current positions: Tengbomgruppen AB, Kungsleden AB, Vasallen AB, FastPartner AB, Chengde Intressenter AB, Runsvengruppen AB Chairman, North European Properties Ltd Chairman, Reinhold Polska AB.
Previous positions during the past five years: Managing Director and member of the Board of Directors of Kungsleden AB and companies included in the Kungsleden Group.
Shares in Ruric: 0.
Warrants in Ruric: 7,000 2006/2009 warrants.

Gert Tiivas
Tallinn, Estonia, born 1973.
Member of the Board of Directors, elected to the Board of Directors in 2006.
Other current positions: Director of East Capital. Member of the Board of Directors of Arco Varavalitsemise AS, AS Baltika, Cantik Enterprises Ltd., Pervomayskaya Zarya Ltd., Tallinn Stock Exchange and TEO LT AB.
Previous positions over the past five years: Member of the Board of Directors of the NOREX Alliance, Estonian CSD and OMX, Baltic News Service.
Shares in Ruric: 0.
Warrants in Ruric: 0.

Ulrika Hagdahl
Lidingö, Sweden, born 1962.
Alternate member of the Board of Directors, elected to the Board of Directors in 2004.
Other current positions: Member of the Board of Directors and Managing Director of Cancale Förvaltnings AB, Nils Arousell Nilsson AB, Lannion AB and Baltenergo AB. Member of the Board of Directors of IFS AB. Of these companies, Ulrika Hagdahl is an owner of Cancale Förvaltnings AB, Lannion AB and Baltenergo AB.
Previous positions over the past five years: Member of the Board of Directors of Orc Software AB, Orc Exnet AB, Protect Data AB and IP-Only AB.
Shares in Ruric: 120,000 class A shares through ownership in Cancale Förvaltnings AB.
Warrants in Ruric: 15,000 class A 2006/2007 warrants through ownership in Cancale Förvaltnings AB.

Harald Kjessler
Saltsjöbaden, Sweden, born 1963.
Alternate member of the Board of Directors, elected to the Board of Directors in 2004.
Other current positions: Member of the Board of Directors of E. Öhman J:or Fondkommission AB and X5 Music Group AB and Managing Director and member of the Board of Directors of Konsumentkredit i Sverige AB.
No previous positions over the past five years.
Shares in Ruric: 1,900 class B shares.
Warrants in Ruric: 3,700 class B 2006/2007 warrants.

Senior management

Thomas Zachariasson
Djursholm, Sweden, born 1963.
Managing Director.
Commenced 2004.

Shares in Ruric: 6,900 class B shares.

Warrants in Ruric: 50,800.

Leonid Polonski
Saint Petersburg, Russia, born 1946.
Chief Operating Officer.
Commenced 2006.

Shares in Ruric: 0.

Warrants in Ruric: 0.

Other current positions: None.

Previous positions over the past five years: Chairman of the Board of Directors of Elf Group, Saint Petersburg.

Anders Larsson
Stockholm, Sweden, born 1964.
Chief Financial Officer.
Commenced 2007.

Shares in Ruric: 116 class B shares.

Warrants in Ruric: 4,000.

Other current positions: Member of the Board of Directors of FastProp Holding AB.

Previous positions over the past five years: Chief Financial Officer and Deputy Managing Director of FastPartner AB.

Auditor

Björn Fernström
Täby, Sweden, born 1950.
Lead auditor
Ernst & Young
Jakobsbergsgatan 24
103 99 Stockholm
Authorised public accountant and member of the Swedish Institute of Authorised Public Accountants.
Auditor since 2004.

Senior management from left: Anders Larsson, Thomas Zachariasson and Leonid Polonski.

Management Report 2006

The Board of Directors and the managing director of Russian Real Estate Investment Company AB hereby submit the following annual report and consolidated accounts.

Unless otherwise stated, all amounts are reported in SEK thousands.

The business

The business concept and overall goals and strategies

The company's business concept is to acquire, develop, lease, and manage properties in Saint Petersburg, Russia focusing on the highest-class commercial properties in attractive locations which thereby positively contribute to the tenants' business operations.

The company has as its goal to become a leading property company in the Saint Petersburg region within its niche segment. The strategy is to identify properties with great potential in the central portions of Saint Petersburg, create suitable acquisition structures, and acquire and renovate them at the best price. After renovation, the highest-class commercial premises (primarily office and retail space) are offered to tenants looking for the best possible premises in attractive locations and who are willing to pay for them.

The acquisition strategy is focused on properties for which Ruric can add great value and is carried out through Ruric benefiting from a lack of information on the local property market and an inefficient capital market in order to identify and carry out acquisitions at attractive prices. This is made possible through a strong local presence and solid contacts with market players and government authorities.

Financial goals

Ruric's goal is to generate a return on shareholders' equity of at least 20 per cent at a conservative level of gearing and to obtain direct return from the property portfolio (rental income minus operating costs in relation to investment) of at least 15 per cent.

Property portfolio

At the end of the period, Ruric owned seven properties in central Saint Petersburg of which three were largely completed, for one of the properties additional construction is pending on the existing property, and the remaining three are in project and/or renovation/conversion. The property portfolio developed during the year as follows:

	MSEK
31 December 2005	281.2
Acquisition (2 properties)	337.5
Investments in own properties	466.9
Sales (1 property)	–10.6
Revaluation	182.6
Depreciation	–2.7
31 December 2006	1,254.9

Acquisitions/investments

During the year, Ruric acquired, in corporate form, two properties and 50 per cent of a previously half-owned property for a total of MSEK 337.5.

The largest unit is Moika/Glinki which Ruric acquired in April 2006 through undertakings amounting to approximately MSEK 540. Moika/Glinki consists of a block in central Saint Petersburg. As per 31 December 2006, the remaining undertakings according to the investment agreement amount to approximately MSEK 200 in order to be able to claim ownership rights in the property.

Ruric has also, in company form, acquired a property located at Fontanka 57. The asset is a 48 year right of use and has been classified as a financial lease (see note 11). The purchase price amounted to MSEK 150.

The remaining portion in the previously half-owned Griffon House property was acquired for MSEK 47 during the year. Ruric thus owns 100 per cent of the company.

Ongoing work on own properties

During 2006, MSEK 466.9 was invested in renovation and in construction work of which approximately MSEK 252 consists of replacement construction within the Moika/Glinki project and approximately MSEK 215 within other parts of the portfolio.

Sales

Ruric sold 340 sq.m. of office space located at Nevsky Prospekt 11 for MSEK 11.9. The sales price exceeds the acquisition value by MSEK 1.8. The profit, after deductions for sales costs according to the income statement, amounts to MSEK 1.2.

Revaluation

During the third quarter, a revaluation of MSEK 182.6 took place in accordance with a resolution adopted by the Board of Directors. In support of this revaluation, the company obtained an independent appraiser's statement in respect of the properties owned by the Group. The revaluation was booked according to applicable reporting rules directly against shareholders' equity through an allocation to a revaluation reserve taking into consideration deferred tax.

In light of the development of the market, Ruric's Board of Directors believes that the value for the portfolios increased additionally during the fourth quarter. However, no additional revaluation has been booked. The book value of properties on 31 December 2006 therefore amounted to MSEK 1,254.9 (281.2).

Project portfolio

The total area for properties in the portfolio will, after completed conversion and renovation, amount to approximately 225,000 sq.m. of which approximately 191,000 sq.m. is estimated to be lettable space.

Completed space

Completed lettable space amounted at the end of 2006 to approximately 18,300 sq.m. (3,100), of which approximately 14,100 sq.m. (3,100) was leased or contracted for immediate occupancy. Unlet space in the amount of 4,200 sq.m. was completed just before the end of the year and, of this space, 840 sq.m. was contracted after the end of the year. Rental levels for leased space lie in the interval of SEK 2,650–5,150 per sq.m. per year.

Multiple year overview

The 2006 financial year was the company's third financial year.

The group

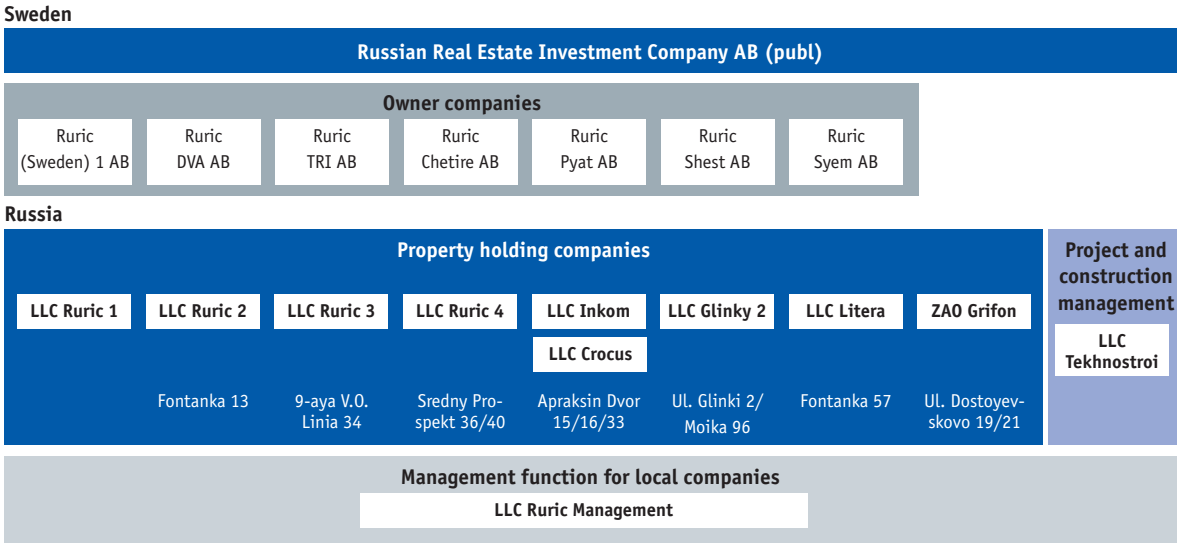
	2006	2005	2004
Net turnover, MSEK	16.6	10.4	0.0
Profit after tax, MSEK	–76.7	–16.8	–2.0
Total assets, MSEK	1,506.9	469.2	239.7
Equity ratio, per cent	45.2	47.3	99.7
Median number of employees	25	9	4

The organisation

The company has a corporate structure in which, in principle, each acquired property is to be owned by a Russian company (a separate company for each individual property) which in turn is owned by a Swedish subsidiary (a separate company for each individual property) of the parent company, Russian Real Estate Investment Company AB. This provides a high degree of flexibility in conjunction with any future sales.

Russian Real Estate Investment Company AB is the parent company of a group of companies which, at year end, consisted of seven Swedish subsidiaries with, in turn, seven wholly-owned Russian subsidiaries and a partially-owned Cypriotic subsidiary and two Russian companies wholly-owned by the parent company of which one is a management company. The companies have their registered offices in Stockholm, Saint Petersburg and Nicosia. The parent company's branch office in Saint Petersburg is being closed down. The branch office handled renovation and conversion projects and the leasing and operation of

Company structure



the property portfolio. All tenant-related tasks were transferred in 2006 from the branch office to the wholly-owned subsidiary, LLC Ruric Management.

At the end of the financial year, the group had 44 employees of which one was at the parent company's branch office in Saint Petersburg, 42 in other Russian subsidiaries in Saint Petersburg, and one at the parent company's headquarters in Stockholm.

Ruric has elected to create its own organisation for projects and construction management with responsibility for the group's extremely extensive property projects in the subsidiary LLC Tekhnostroi. This is believed to be significantly more cost-efficient and provides the company with significantly better control over its undertakings.

Leonid Polonski has therefore been appointed as the new head of all of the Russian operations and the Chief Operating Officer of the group and is a member of the company's senior management. Leonid has been responsible for the Moika/Glinki project since the spring of 2006.

In the parent company, services regarding accounts, administration and legal matters were outsourced during the year. Commencing on 15 February 2007, Anders Larsson assumed the position as CFO of the parent company in Stockholm.

The work of the Board of Directors

At the end of the year, the Board of Directors consisted of four regular members and two alternate members.

In addition to the first meeting of the Board of Directors, meetings must be held at least four times per calendar year. During 2006, 20 meetings were held of which three took place in Saint Petersburg. The Board of Directors' work focused primarily on the company's continued build up, decisions regarding property investments, and the financing of these.

The work of the Board of Directors and the allocation of responsibility between the Board of Directors and the managing directors are governed by instructions which are updated annually.

Ownership

Russian Real Estate Investment Company AB ("Ruric") commenced operations in April 2004.

The founders, E. Öhman J:or AB, Cancale Förvaltnings AB and East Capital, together own all of the company's 664,000 class A shares and also 411,600 class B shares. At the close of the financial year, the above-stated total shareholdings represented 66.3 per cent of the voting capital. The remaining 3,588,570 class B shares represented 33.7 per cent of the voting capital. At the close of the financial year, the company had 1,236 shareholders.

Profit Trend

The rents taken up as revenue for the Group, amounting to MSEK 16.6 (10.4), cover the buildings at 9-aya V.O. Linia 34 and Sredny Prospekt 36/40, the entire current building at ul. Dostoyevskovo 19/21, the completed part of Apraksin Dvor 15/16 and the now sold office space at Nevsky Prospekt 11.

Other properties have undergone renovation and conversion and do not yet contain any rentable space. Ongoing renovation and conversion is generally going according to plan with minor delays in completion, which has entailed somewhat lower rental revenues than expected during the year.

Accordingly, in respect of 2006, the Group reports negative operating results in the amount of MSEK –36.0 (–10.5). Net financial items were MSEK –32.8 (–3.9). The loss after tax for 2006 was MSEK –76.7 (–16.8). Exchange rate differences affected the loss for the year in the amount of MSEK 2.3 (5.7) relating to exchange rate differences.

Taxes

Ruric pays income tax in Russia at a nominal rate of 24 per cent on taxed profits. The Russian tax rules also prescribe that foreign companies may not withhold profits from taxation by means of aggressive withdrawals through group loans. Accordingly, where the share of equity is less than 25 per cent, what are commonly referred to as "Thin Capitalization Rules" prescribe that a portion of the Russian subsidiaries' interest expenses are to be taxed as dividends (15 per cent).

Property tax

In the Russian subsidiaries, property tax is charged at a rate of 2.2 per cent on the book value. Capitalised expenses such as capitalised interest and certain other expenses for external consultants, e.g. architects, are deducted from the book value. Normally it is expected that approximately 70 per cent of the book value will be subject to property taxation in Russia.

Cash flow, liquidity and financial position

Cash flow for the financial year was MSEK 0.4 (–24.5). The equity ratio at the end of the period amounted to 45.2 (47.3) per cent. Equity amounted to MSEK 681.7 (222.1). Liquid funds amounted to MSEK 152.9 (152.4), and interest-bearing liabilities amounted to MSEK 730.8 (238.3). Investments for the year and the operating deficit have been financed in part by two new share issues and a new bond issue.

Interest-bearing liabilities

Ruric's financing is composed of two bond series and a debt in respect of financial leasing of the property in Russia. The bonds are registered on NGM (Nordic Growth Market).

During the second quarter of 2005, the Company raised an additional MSEK 226 through a bond issue with a redemption date of 28 April 2008. The nominal amount is MSEK 250. The bonds carry no coupon interest up to and including 28 April 2006. Commencing 29 April 2006 and up to and including the redemption date, the bonds carry coupon interest at a rate of 9.0 per cent per year, with interest due dates of 29 April 2007 and 29 April 2008.

During the second quarter of 2006, the Company raised an additional MSEK 410 through a bond issue, with a redemption date of 16 November 2010. The nominal amount is MSEK 451.5. The bonds do not carry any coupon interest up to and including 16 November 2006. Commencing 17 November 2006 up to and including the redemption date, the bonds carry coupon interest at a rate of 8.5 per cent per year, with interest due dates of 16 November 2007, 16 November 2008, 16 November 2009 and 16 November 2010.

Discussions are currently under way with a number of banks regarding refinancing of the completed property portfolio on substantially better terms.

Risk factors and risk management

Set forth below is a summary of significant potential risks confronting Ruric:

Financial risks:

Liquidity risks

In light of the Company's expected cash flow trend and the budgeted renovation costs, the Company will require additional capital in the future. The failure to obtain additional financing at the right time may force the Company to postpone, reduce or discontinue operations, or sell the properties on terms unfavourable to the Company. The aforementioned discussions with banks regarding refinancing are intended to secure long-term liquidity.

Interest risks

The Group's loans are composed of two bond series. The interest rates on these bonds are fixed during the term of the loan. The redemption terms and conditions are not tied to the interest rate level upon any premature redemption, as a consequence of which there is no interest risk. The Group's cash balances are held on interest-bearing bank accounts. The interest level on these accounts follow changes in market rates.

Credit risks

Counterparty risks arise primarily in conjunction with leases. Since the Company's operations to date have consisted primarily of conversion and renovation work, and only to a limited extent of leasing operations, this risk has been minimal thus far.

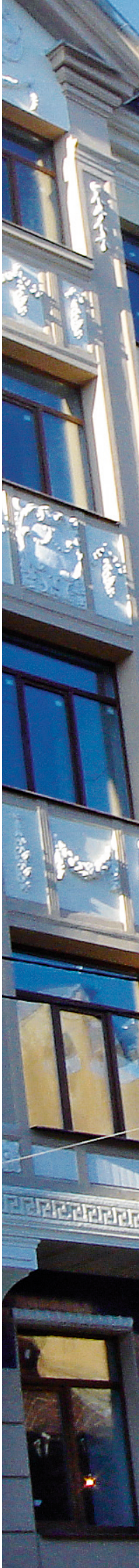
The credit risks are also composed of counterparty risks in conjunction with the administration of liquid funds. Since cash balances are deposited in Swedish banks, these risks are regarded as negligible.

Currency risks/Cash flow risks

Borrowing by the Group has consisted to date of increases in shareholders' equity and the issuance of bonds in SEK. The Group's net outflow is primarily based on USD. To date, currency exposures have not been hedged.

Other risks:

- Ruric is active on a market characterised by political risks, which may affect the willingness to invest.
- The Russian economy is sensitive to external factors, and the risk of financial crises cannot be excluded.
- The legal system in Russia is not thoroughly developed, nor is it entirely comparable to the Western European systems. Legal reforms tend to proceed slowly. All in all, this may have a negative effect on Ruric. The Company regularly conducts so-called legal health checks in order to minimise these risks.
- The property market is attractive from an investment perspective, as a result of which additional players may establish operations. Competition for attractive investment opportunities would accordingly increase.



Events after the end of the financial year

- Leases have been executed with tenants for possession in the spring of 2007:
  - Office space comprising 840 sq. m. at Fontanka 13 was leased for SEK 4,450 per sq. m. and year;
  - Shop space comprising 2,161 sq. m. at Apraksin Dvor 15/16 was leased at SEK 2,900–5,000 per sq. m. and year.
- Anders Larsson was appointed Financial Director on 15 February 2007. Anders is a member of the Company's senior management and comes most recently from Fast-Partner AB where he was Deputy Managing Director and Chief Financial Officer.
- A letter of intent has been executed with a buyer for the sale of the property at ul. Dostoyevskovo 19/21.
- At a meeting held on 1 March 2007 the Board of Directors resolved to convene an extraordinary meeting of the shareholders on 22 March 2007, at which resolutions would be adopted regarding a new issue of 1,554,723 shares, whereupon old shares would entitle holders to subscribe for one new share at a subscription price of SEK 260.

Future prospects

The Company expects that Saint Petersburg will continue to show a positive development in many respects through its geographic location and its role as the second largest city in Russia. Naturally, this will be contingent on the overall economic development and political situation in the country as a whole.

The real estate market in Saint Petersburg is not entirely transparent, as a consequence of which it is difficult to quantify available space, demand, letting rates, rental levels and increases in value. However, it is the opinion of the Board of Directors and executive management that the market will be characterised by a continued imbalance between supply and demand for high-end office and shop premises, and that Ruric, given it strong local position, will be able to operate successfully in this environment.

The parent company

The parent company comprises the central management in Stockholm, and has responsibility for overall management of the operation and financing. During the second quarter, a reorganisation of the Russian operation was commenced, in which context most of the former employees at the Saint Petersburg branch are now employed in various Russian group companies. There were two employees of the Parent Company at the end of the reporting period. One of the Parent Company's employees is stationed at the branch office in Saint Petersburg, and one person is stationed at the office in Stockholm. Commencing 1 January 2007, there were no employees at the branch office in Saint Petersburg.

The parent company's turnover for the year was MSEK 0.3 (–). The loss after financial items was MSEK –94.9 (–3.4). Exchange rate differences of MSEK –56.5 (16.6) have been reported in the income statement. Investments in tangible fixed assets during the year amounted to MSEK 0.1 (0.4). During the year, the parent company acquired the remaining 50 per cent of the Russian group company, Griffon House, which in turn owns the property on ul. Dostoyevskovo 19/21. In addition, the parent company owns the wholly-owned Russian holding company, LLC Ruric Management.

Liquid funds at the end of the year amounted to MSEK 123.3 (131.1).

Transition to reporting in accordance with IFRS rules

In light of the fact that the listing agreement with NGM (New Growth Market) – on which the Company's bonds are listed – prescribes a transition to reporting in accordance with the IFRS rules, a transition to the IFRS rules will take place commencing 1 January 2007.

The transition to IFRS will principally involve IAS 40 – investment properties – whereupon the Group's investment properties will be reported at market value, and unrealised profits and losses will be reported in the income statement.

Proposed allocation of profit

The following funds are available to the Annual General Meeting for disposition:

	SEK
Share premium reserve less costs of share issue	390,164,694
Loss brought forward	–13,544,579
Loss for the year	–97,043,277
Total	**279,576,838**

The Board of Directors proposes that the accumulated profit in the parent company, SEK 279,576,838, be brought forward.

Financial reports

The Group's income statement

	Note	2006-01-01–2006-12-31	2005-01-01–2005-12-31
Rental revenues	1	16,571	10,426
Property expenses		–42,985	–17,224
Operational loss	1	**–26,414**	**–6,798**
Result of sale of real estate		1,240	–
Central administration		–7,729	–3,438
Depreciation of tangible fixed assets	11	–3,059	–236
		–9,548	**–3,674**
Operating loss	3, 4, 5	**–35,962**	**–10,472**
Profit/loss from financial investments			
Profit/loss from participations in Group company	7	–	–1,094
Other interest income and similar profit/loss items	8	3,824	4,119
Interest expenses and similar profit/loss items	6, 9	–36,602	–6,943
		–32,778	**–3,917**
Loss before tax		**–68,740**	**–14,389**
Tax on profit for the year	10	–7,927	–1,437
Minority share of profit/loss for the year		–	–990
Loss for the year		**–76,667**	**–16,817**
Loss per share before dilution		–21.48	–6.73
Loss per share after dilution		1)	1)

1) Taking into account the dilution effect regarding outstanding warrants, conversion results in an improvement of the result per share. In accordance with Swedish Financial Accounting Standards Council Recommendation RR18, no profit/loss per share after dilution has been reported.

The Group's balance sheet

	Note	06-12-31	05-12-31
ASSETS			
Fixed assets			
Tangible fixed assets	11		
Equipment, tools and facilities		2,287	2,289
Investment properties		381,417	–
Ongoing property projects		873 481	281,190
		1,257,185	**283,479**
Financial fixed assets			
Other long-term receivables	12	44,638	19,671
Deferred tax claims	10	1,591	663
		46,229	**20,334**
Total fixed assets		**1,303,414**	**303,813**
Current assets			
Current receivables			
Accounts receivable		2,214	117
Other receivables		37,051	5,793
Advances to suppliers		–	6,698
Prepaid expenses and accrued income	14	11,390	332
		50,655	**12,939**
Cash and bank balances	15	152,869	152,448
Total current assets		**203,525**	**165,388**
TOTAL ASSETS		**1,506,939**	**469,200**

	Note	06-12-31	05-12-31
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Restricted reserve			
Share capital		9,328	5,000
Restricted reserves		374,527	236,000
		383,855	**241,000**
Accumulated profit/loss			
Unrestricted reserves		374,561	–2,041
Loss for the year		–76,667	–16,817
		297,894	**–18,858**
Total equity		**681,749**	**222,142**
Provisions			
Deferred tax liability	10	49,493	–
		49,493	**–**
Long-term liabilities			
Bonds	17	678,923	236,845
Other long-term liabilities	18	52,290	1,437
Total long-term liabilities		**731,213**	**238,282**
Current liabilities			
Accounts payable		8,770	4,160
Tax liability		596	850
Other current liabilities	19	1,581	671
Accrued expenses and prepaid income	20	33,537	3,095
Total current liabilities		**44,484**	**8,776**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,506,939**	**469,200**
Pledged assets	21	None	7,952
Contingent liabilities		None	None

The Group's cash flow statement

	Note	2006-01-01–2006-12-31	2005-01-01–2005-12-31
Current operations			
Profit/loss after financial items		–68,740	–14,389
Adjustments for items not affecting cash flow:			
Depreciation		3,393	236
Exchange rate differences		–2,201	–5,707
Capitalised interest expenses		37,106	5,579
Profit/loss from sale of real estate		–1,240	–
Financial leasing		–3,745	–
Profit/loss from interests in Group companies		–	1,094
Tax paid		–3,610	–810
Cash flow from current operations before changes in working capital		**–39,037**	**–13,997**
Change in working capital			
Increase in receivables		–38,205	1,561
Increase in accounts payable		4,610	2,413
Increase in other current operating liabilities		13,520	6,969
Cash flow from current operations		**–59,112**	**–3,054**
Investment activities			
Acquisition of subsidiaries		–	279
Acquisition of tangible fixed assets		–732,191	–248,674
Sale of tangible fixed assets		11,900	–
Investments in other financial assets		–27,678	–1,337
Increase in short-term investments		–	481
Cash flow from investment activities		**–747,969**	**–249,251**
Financing activities			
Share issue		394,497	–
Warrants		2,998	–
Change in long-term loan debt		410,007	227,762
Cash flow from financing activities		**807,502**	**227,762**
Cash flow for the year		**421**	**–24,543**
Liquid assets at the start of the period		**152,448**	**176,991**
Liquid assets at the end of the period		**152,869**	**152,448**

The Parent Company's income statement

	Note	2006-01-01–2006-12-31	2005-01-01–2005-12-31
Net turnover	1	280	–
Property expenses		–16,589	–11,789
Operational loss	1	**–16,309**	**–11,789**
Central administration		–4,157	–2,947
Depreciation of tangible fixed assets	11	–117	–135
		–4,274	**–3,082**
Operating loss	2, 3, 4, 5	**–20,583**	**–14,872**
Profit/loss from financial investments			
Other interest income and similar profit/loss items	8	35,738	12,547
Interest expenses and similar profit/loss items	6, 9	–110,067	–1,114
		–74,329	**11,433**
Loss before tax		**–94,912**	**–3,439**
Tax on profit for the year	10	–2,131	–
Loss for the year		**–97,043**	**–3,439**
Loss per share before dilution		–27,18	–1,38
Loss per share after dilution		1)	1)

1) Taking into account the dilution effect regarding outstanding warrants, conversion results in an improvement of the result per share. In accordance with Swedish Financial Accounting Standards Council Recommendation RR18, no profit/loss per share after dilution has been reported.

The parent company's balance sheet

	Note	2006–12–31	2005–12–31
ASSETS			
Tangible assets			
Tangible fixed assets	11		
Equipment, tools and installations		53	339
		53	**339**
Financial fixed assets			
Participating shares in Group companies	12, 13	206,326	19,127
Claims against Group companies		1,026,953	317,410
Deferred tax claims	10	–	663
		1,233,279	**337,200**
Total fixed assets		**1,233,332**	**337,540**
Current assets			
Current receivables			
Other receivables		401	–
Prepaid expenses and accrued income	14	8,566	124
		8,967	**124**
Cash and bank balances	15	123,282	131,059
Total current assets		**132,249**	**131,183**
TOTAL ASSETS		**1,365,581**	**468,723**

	Note	2006–12–31	2005–12–31
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Restricted equity			
Share capital		9,328	5,000
Share premium reserve		236,000	236,000
Revaluation reserve		138,783	–
		384,111	**241,000**
Accumulated profit/loss			
Profit/loss brought forward		376,620	–9,329
Loss for the year		–97,043	–3,439
		279,577	**–12,769**
Total shareholders' equity		**663,688**	**228,231**
Long-term liabilities			
Bonds	17	678,923	236,845
Total long-term liabilities		**678,923**	**236,845**
Current liabilities			
Accounts payable		202	1,725
Other current liabilities	19	156	412
Accrued expenses and prepaid income	20	22,612	1,510
Total current liabilities		**22,970**	**3,646**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,365,581**	**468,723**
Pledged assets	21	None	None
Contingent liabilities		None	None

The parent company's cash flow statement

	Note	2006-01-01 – 2006-12-31	2005-01-01 – 2005-12-31
Current operations			
Profit/loss after net financial items		–94,912	–3,439
Adjustments for items not affecting cash flow:			
Depreciation		127	135
Exchange rate differences		56,492	–16,578
Capitalised interest income and interest expenses		19,596	1,824
Cash flow from current operations before changes in working capital		**–18,697**	**–18 058**
Change in working capital			
Increase +/decrease – in accounts payable		–1,524	1,675
Increase +/decrease – in other operating receivables		–8,846	823
Increase +/decrease – in other operating liabilities		1,157	1,454
Cash flow from current operations		**–27,910**	**–14,106**
Investment activities			
Investments in subsidiaries		–48,416	–459
Investments in associated company		–	–
Investments in other financial fixed assets		–739,112	–251,168
Acquisition of tangible fixed assets		–	–416
Sale of tangible fixed assets		159	–
Cash flow from investment activities		**–787,369**	**–252,043**
Financing activities			
Share issue		394,497	–
Warrants		2,998	–
Change in long-term loan debts		410,007	226,325
Cash flow from financing activities		**807,502**	**226,325**
Cash flow for the year		**–7,777**	**–39,824**
Liquid assets at the start of the period		**131,059**	**170,883**
Liquid assets at the end of the period		**123,282**	**131,059**

Notes

NOTES

Accounting and valuation principles

Generally

The Annual Report has been prepared in accordance with the Swedish Annual Reports Act and the general guidelines issued by the Swedish Accounting Standards Board and recommendations issued by the Swedish Financial Accounting Standards Council, where applicable, in accordance with the description of the Company's valuation principles below.

Consolidated accounts

The consolidated accounts cover the parent company and the companies in which the parent company holds, directly or indirectly, more than 50 per cent of the voting capital or otherwise exercises a controlling influence in accordance with Chapter 1, section 4 of the Swedish Annual Reports Act. The consolidated accounts have been prepared in accordance with the acquisition method. This means that the 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 these companies were acquired. The minority share of the profit after tax is reported as a minority interest.

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

Revenues

Revenues are reported to the extent it is probable that the financial benefits will inure to the Group and the revenues can be estimated in a reliable manner.

Rental revenues are reported linearly in accordance with the terms and conditions in the applicable lease agreement.

Interest income is reported when earned.

Property expenses

Property expenses are composed of direct and indirect property expenses such as maintenance, insurance and property tax as well as expenses for central project management, legal administration, marketing of premises and administration fees.

Loan expenses

Loan expenses are reported in accordance with the alternative principle set forth in the Swedish Financial Accounting Standards Council Recommendation RR21, i.e. loan expenses that are directly attributable to the acquisition, construction or production of an asset which, by necessity, require a considerable amount of time to complete for the intended use, shall be included in the acquisition value of the asset.

Receivables

Receivables are reported at nominal value or the amount expected to be received, whichever is lower.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies 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/loss. Profits and losses on financial receivables and liabilities are reported as financial items.

Tangible fixed assets

Tangible fixed assets are reported at acquisition value less accumulated depreciation and any write-down. Straight-line depreciation is used during the estimated useful life as follows:

Equipment, tools and facilities	3–5 years
Properties	50 years

Taxes including deferred tax

Deferred taxes are reported according to the balance sheet method, as a consequence of which deferred taxes are calculated for all identified, temporary differences as of the balance sheet date between values for tax purposes and the book value of assets and liabilities.

Deferred tax claims are reported in respect of all deductible, temporary differences and unutilised loss carry-forwards to the extent it is probable that future taxable profits will be available and against which the temporary differences or unutilised loss carry forwards may be used.

The reported values of the deferred tax claims are estimated on each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available in order to utilise all or part of the deferred tax claim.

Deferred tax claims and tax liabilities are calculated on the basis of the tax rate expected to apply in respect of the period during which the receivables and liabilities are settled, based on those tax rates (and tax regulations) applicable, or in practice applicable, on the balance sheet date.

Note 1 Segment information

The Group

Rental revenues and operating profits/losses are distributed for the geographical markets as follows:

	2006		2005	
	Rental Revenues	Operational loss	Rental Revenues	Operational loss
Sweden	–	–12,564	–	–9,161
Russia (incl. branch)	16,571	–13,850	10,426	2,363
Total	**16,571**	**–26,414**	**10,426**	**–6,798**

Note 2 Purchases and sales between Group companies

Of the year's purchases, 0 (0) relates to purchases from other Group companies.

Note 3 Average number of employees

	2006		2005	
	Number of employees	Of which men	Number of employees	Of which men
Parent Company				
Sweden	1	1	1	1
Russia (branch)	5	3	8	4
Total Parent Company	6	4	9	5
Subsidiaries				
Russia	19	11	0	0
Group total	**25**	**15**	**9**	**5**

Note 4 Salaries, other remunerations and social security costs

	2006		2005[1)]	
	Salaries and other remunerations	Social security costs (of which pension expenses)	Salaries and other remunerations	Social security costs (of which pension expenses)
Parent Company	7,179	1,857	4,475	1,229
		(480)		(281)
Subsidiaries	4,466	883	_	_
		(–)		
Group total	**11,645**	**2,740**	**4,475**	**1,229**

1) In 2005, employees of the Russian operation were employed by the Parent Company's branch in Saint Petersburg.

Note 4 – Salaries, other remunerations and social security costs

Salaries and other remunerations broken down per country and between Board members, etc., and employees

	2006		2005	
	Board of Directors and Managing Director (of which bonuses and suchlike)	Other employees	Board of Directors and Managing Director (of which bonuses and suchlike)	Other employees
Parent Company				
Sweden	3,277	227	2,355	–
Russia (branch)	–	3,676	–	2,120
	3,277	**3,903**	**2,355**	**2,120**
Foreign subsidiaries				
Russia	–	4,466	–	–
	–	4,466	–	–
Group total	**3,277**	**8,369**	**2,355**	**2,120**

	2006			2005		
	Basic salary/ fees for the Board	Bonus	Pension expenses	Basic salary/ fees for the Board	Bonus	Pension expenses
Chairman of the Board	100		–	100		–
Other members of the Board	300		–	200		–
Managing Director	1,489	1,103	480	1,035	855	281
Other senior management	1,096	2,164	–	516		–
Total	**2,985**	**3,267**	**480**	**1,851**	**855**	**281**

Remuneration to the Board amounts to SEK 400,000, to be distributed amongst the Board members.

Since 1 July 2006, the Managing Director receives a fixed annual salary of SEK 1,800,000. In addition to fixed salary, the Managing Director receives a performance-based variable salary not exceeding 75 per cent of the fixed salary. In 2006, a bonus was paid in the amount of SEK 1,103,000. The Managing Director holds 50,000 warrants based on incentive programmes. The payment upon exercise has been calculated according to market terms. The allotment of warrants was resolved upon by an Extraordinary General Meeting on 16 August 2006.

The Managing Director is entitled to terminate the employment agreement subject to three months' notice of termination. The Company is entitled to terminate the employment agreement subject to twelve months' notice of termination. In the event of termination by the Company, the Managing Director is entitled, in addition to salary, to severance pay equal to six months' salary, or twelve months' salary in the event the Managing Director has reached the age of 50.

The Company makes annual pension contributions for the Managing Director equal to 25 per cent of the Managing Director's fixed salary. The retirement age for the Managing Director is 65. In the event the Managing Director is in service at the age of 60, the Managing Director or the Company shall be entitled to terminate the employment, whereupon retirement pension shall be payable in the amount of 70 per cent of the most recent annual salary. Such pension shall be payable until the ordinary retirement age is reached.

Note 5 Information about the auditor's fees

	The Group		The Parent Company	
	2006	2005	2006	2005
Ernst & Young AB				
Auditing engagements	929	226	484	226
Other engagements	494	–	494	–
	1,423	**226**	**978**	**226**
Other accounting firms				
Auditing engagements	203	144	–	–
Other engagements	–	–	–	–
	203	**144**	**–**	**–**

Note 6 Exchange rate differences

	The Group		The Parent Company	
	2006	2005	2006	2005
Exchange rate profits	5,286	6,013	4,666	16,917
Exchange rate losses	–3,010	–306	–61,158	–339
Total	**2,276**	**5,707**	**–56,492**	**16,578**

The exchange rate losses above have been reported as translation differences relating to monetary assets in the amount of SEK 27,659,000 for the Group and SEK 500,000 for the Parent Company (the branch).

Note 7 Profit/loss from participating shares in Group companies

	The Group		The Parent Company	
	2006	2005	2006	2005
Write-down, minority share claim	–	–1,094	–	–
Total	**–**	**–1,094**	**–**	**–**

Note 8 Other interest income and similar profit/loss items

	The Group		The Parent Company	
	2006	2005	2006	2005
Interest income	3,824	4,119	35,738	12,547
Total	**3,824**	**4,119**	**35,738**	**12,547**

Note 9 Other interest expenses and similar profit/loss items

	The Group		The Parent Company	
	2006	2005	2006	2005
Interest expenses	–37,259	–5,797	–51,909	–10,523
Expenses relating to issuance of bonds	–1,285	–5,658	–1,285	–5,658
Other financial expenses	–334	–1,195	–381	–1,511
Exchange rate differences	2,276	5,707	–56,492	16,578
Total	**–36,602**	**–6,943**	**–110,067**	**–1,114**

Note 10 Tax on profit for the year

	The Group		The Parent Company	
	2006	2005	2006	2005
Current tax costs	–3,355	–1,189	–	–
Tax relating to Group contributions	–	–	–1,468	–
Deferred tax	–4,572	–248	–663	–
Reported tax costs	**–7,927**	**–1,437**	**–2,131**	**–**

The difference between the Group's tax costs and the tax costs based on the applicable tax rate consists of the following elements:

	The Group		The Parent Company	
	2006	2005	2006	2005
Reported results before tax	–68,740	–14,389	–94,912	–3,439
Tax in accordance with the applicable tax rate in each country	20,757	3,975	26,405	963
Tax effect of expenses which are not deductible for tax purposes:				
Other non-deductible items	1,320	–3,096	–	–963
Effect of items booked against shareholders' equity		–	1,468	2,068
Non-capitalised part of deficit for the year	–29,341	–2,068	–29,341	–2,068
Utilisation of capitalised loss carry forwards from prior years	–663	–248	–663	–
Reported tax expense	**–7,927**	**–1,437**	**–2,131**	**–**

The nominal tax rate in Sweden – excluding the branch – is 28 per cent and, in the Russian operations, 24 per cent.

The Group's temporary differences have resulted in deferred tax claims and tax liabilities with respect to the following items:

	The Group		The Parent Company	
	2006	2005	2006	2005
Deferred tax claims				
Opening balance	663	663	663	663
Revaluation of unutilised loss carry forwards	–663	–	–663	–
Other temporary differences	1,591	–	–	–
Closing book value	**1,591**	**663**	**–**	**663**

Deferred tax claims relating to the deficit for 2005 have not been taken into consideration. Nor has the deficit relating to the deficit in 2006 in the parent company been taken into consideration.

	The Group		The Parent Company	
	2006	2005	2006	2005
Deferred tax liability				
Revaluation of property	43,604	–	–	–
Other temporary differences	5,889	–	–	–
Closing book value	**49,493**	**–**	**–**	**–**

Note 11 Tangible fixed assets

Equipment, tools and installations

	The Group		The Parent Company	
	2006	2005	2006	2005
Opening acquisition value	2,764	63	479	63
Purchases	468	416	45	416
Disposals/obsolescence	–205	–	–430	–
Opening acquisition value from acquisitions	–	88	–	–
Other changes	–	2,197	–	–
Closing accumulated acquisition value	**3,027**	**2,764**	**94**	**479**
Opening depreciation	–475	–5	–140	–5
Opening accumulated depreciation from acquisitions	–	–52	–	–
Disposals/obsolescence	62	–	216	–
Depreciation for the year	–327	–196	–117	–135
Other changes	–	–223	–	–
Closing accumulated depreciation	**–740**	**–475**	**–41**	**–140**
Closing residual value according to plan	**2,287**	**2,289**	**53**	**339**

Investment properties

	The Group		The Parent Company	
	2006	2005	2006	2005
Reclassification from ongoing property projects	383,529	–	–	–
Closing accumulated acquisition value	**383,529**	**–**	**–**	**–**
Reclassification from ongoing property projects	–2,112	–	–	–
Closing accumulated depreciation	**–2,112**	**–**	**–**	**–**
Closing residual value according to plan	**381,417**	**–**	**–**	**–**

Ongoing property projects

	The Group		The Parent Company	
	2006	2005	2006	2005
Opening acquisition value	281,230	22,443	–	–
Acquisitions via subsidiaries	–	12,530	–	–
Reclassification as investment property	–383,529	–	–	–
Financial leasing	54,925	–	–	–
Purchases	759,160	246,257	–	–
Revaluation	182,609	–	–	–
Disposals	–20,436	–	–	–
Closing accumulated acquisition values	**873,959**	**281,230**	**–**	**–**
Opening depreciation	–40	–	–	–
Reclassification as investment property	2,112	–	–	–
Disposals	182	–	–	–
Depreciation for the year	–2,732	–40	–	–
Closing accumulated depreciation	**–478**	**–40**	**–**	**–**
Closing residual value according to plan	**873,481**	**281,190**	**–**	**–**

Note 11 Tangible fixed assets

Prepared and let premises are depreciated for accounting purposes at a rate of 2 per cent. Ongoing property projects which are not yet substantially completed and let are not depreciated.

Loan expenses have been capitalised as ongoing property projects in accordance with the alternative principle and the Swedish Financial Standards Council's Recommendation RR21.

The total loan expenses included in the acquisition value during the 2006 financial year amount to SEK 13,754,000 and, in total, to SEK 19,132,000. The interest rates which are used to determine the amount for capitalised loan costs average 5.5 per cent.

Property tax is charged at a rate of 2.2 per cent on the book value in the Russian subsidiary. Capitalised expenses such as capitalised interest and certain other expenses for external consultants, e.g. architects, are deducted from the book value. Normally it is expected that approximately 70 per cent of the book value will be subject to property taxation in Russia.

Financial leasing

LLC Litera was acquired during the year. Prior to the acquisition, this company had executed a 49-year lease for the Fontanka 57 property. The lease expires on 29 December 2054.

Upon acquisition, approximately 48.5 years of the lease term remained.

The lease has been classified as a financial lease. The annual lease costs amount to USD 1,234,351.

Rental expense	Nominal, USD	Present Value Computation 15%, USD
2007	1,234,351	933,346
2008–2011	4,937,404	2,664,684
2012–2054	53,591,406	3,548,893

The reported value regarding this financial lease is included in Ongoing Property Projects in the amount of SEK 54,925,000.

Note 12 Financial fixed assets

Participations in subsidiaries

	Parent Company	
	2006	2005
Opening acquisition value	19,362	635
Revaluation	138,783	–
Reclassification[1)]	–	18,268
Purchases	48,416	459
Closing accumulated acquisition value	**206,561**	**19,362**
Opening depreciation	–235	–235
Closing accumulated depreciation	**–235**	**–235**
Closing book value	**206,326**	**19,127**

1) Subsidiaries which were reported as affiliated companies in prior years in which a controlling influence in 2005 resulted in the company currently being reported as a Group company.

Other long-term receivables

	The Group		The Parent Company	
	2006	2005	2006	2005
Loan claims	–	1,743	–	–
Property VAT	44,628	17,928	–	–
Other long-term receivables	10	–	–	–
Closing accumulated acquisition value	**44,638**	**19,671**	**–**	**–**
Closing book value	**44,638**	**19,671**	**–**	**–**

Note 13 Participating shares in Group companies

	Share of equity	Share of votes	Number of shares	Book value 06-12-31	Book value 05-12-31
Russian Real Estate Investment Company (Sweden) 1 AB	100%	100%	1,000	798	100
Limited Liability Company Ruric 1	100%	100%	100,000	–	–
Limited Liability Company Ruric Management	100%	100%	1	159	159
Closed Joint–Stock Company Grifon	100%	100%	100	83,854	18,268
Russian Real Estate Investment Company DVA AB	100%	100%	100,000	326	100
Limited Liability Company Ruric 2	100%	100%	349,099	–	–
Russian Real Estate Investment Company TRI AB	100%	100%	100,000	15,384	100
Limited Liability Company Ruric 3	100%	100%	100	–	–
Russian Real Estate Investment Company Chetire AB	100%	100%	100,000	16,003	100
Limited Liability Company Ruric 4	100%	100%	1		
Russian Real Estate Investment Company Pyat AB	100%	100%	1,000	100	100
Cofulek Limited Liability Company	65,5%	65,5%	72,019		
Limited Liability Company Crocus	100%	100%	1		
Limited Liability Company Incom	100%	100%	1		
Russian Real Estate Investment Company Shest AB	100%	100%	100,000	89,602	100
Russian Real Estate Investment Company Syem AB	100%	100%	1,000	100	100
Total				**206,326**	**19,127**

Information regarding subsidiaries' registration numbers/registered offices:

	Registration No.	Registered office
Limited Liability Company Ruric 1	104 785 503 9210	Saint Petersburg
Limited Liability Company Ruric 2	104 785 509 3846	Saint Petersburg
Limited Liability Company Ruric 3	104 785 508 6916	Saint Petersburg
Limited Liability Company Ruric 4	104 785 504 6227	Saint Petersburg
Limited Liability Company Ruric Management	105 781 268 3928	Saint Petersburg
Closed Joint-Stock Company Grifon	103 784 300 2834	Saint Petersburg
Cofulek Limited Liability Company	HE 166876	Nicosia
Limited Liability Company Crocus	103 786 102 5542	Saint Petersburg
Limited Liability Company Incom	103 782 800 1738	Saint Petersburg
Russian Real Estate Investment Company (Sweden) 1 AB	556653-9721	Stockholm
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
Russian Real Estate Investment Company Pyat AB	556656-5841	Stockholm
Russian Real Estate Investment Company Shest AB	556662-8011	Stockholm
Russian Real Estate Investment Company Syem AB	556656-6799	Stockholm

Note 14 Prepaid expenses and accrued income

	The Group		The Parent Company	
	2006	2005	2006	2005
Prepaid expenses relating to bonds	7,964	–	7,964	–
Other items	3,426	332	602	124
Total	**11,390**	**332**	**8,566**	**124**

Note 15 Liquid funds

	The Group		The Parent Company	
	2006	2005	2006	2005
Cash and bank balances	152,869	152,448	123,282	131,059
(of which blocked funds)	(–)	(7 952)	(–)	(–)

Note 16 Shareholders' equity

The Group

	Share capital	Restricted reserves	Non-restricted equity	Total equity
Shareholders' equity, 20 January 2004	–	–	–	–
Exchange rate differences not reported in the income statement	–	–	–78	–78
Profit/loss for the year	–	–	–1,963	–1,963
New issue	5,000	245,000	–	250,000
Issue expenses	–	–9,000	–	–9,000
Equity, 31 December 2004	**5,000**	**236,000**	**–2,041**	**238,959**
Shareholders' equity, 1 January 2005	5,000	236,000	–2,041	238,959
Profit/loss for the year	–	–	–16,817	–16,817
Shareholders' equity, 31 December 2005	**5,000**	**236,000**	**–18,858**	**222,142**
Shareholders' equity, 1 January 2006	5,000	236,000	–18,858	222,142
New issue	4,328	–	396,692	401,020
Issue expenses	–	–	–6,527	–6,527
Warrant payment	–	–	2,998	2,998
Revaluation reserve, property	–	138,783	–	138,783
Advance item	–	–256	256	–
Profit/loss for the year	–	–	–76,667	–76,667
Shareholders' equity, 31 December 2006	**9,328**	**374,527**	**297,894**	**681,749**

The Parent Company The Parent Company

	Share capital	Restricted reserves	Non-restricted equity	Total equity
Shareholders' equity, 20 January 2004	–	–	–	–
Profit/loss for the year	–	–	–1,944	–1,944
New issue	5,000	245,000	–	250,000
Issue expenses	–	–9,000	–	–9,000
Shareholders' equity, 31 December 2004	**5,000**	**236,000**	**–1,944**	**239,056**
Shareholders' equity, 1 January 2005	5,000	236,000	–1,944	239,056
Group contributions provided	–	–	–7,386	–7,386
Profit/loss for the year	–	–	–3,439	–3,439
Shareholders' equity, 31 December 2005	**5,000**	**236,000**	**–12,769**	**228,231**
Shareholders' equity, 1 January 2006	5,000	236,000	–12,769	228,231
New issue	4,328	–	396,692	401,020
Issue costs	–	–	–6,527	–6,527
Warrant payments	–	–	2,998	2,998
Group contributions	–	–	–3,774	–3,774
Revaluation reserve, shares in subsidiaries	–	138,783	–	138,783
Profit/loss for the year	–	–	–97,043	–97,043
Shareholders' equity, 31 December 2006	**9,328**	**374,783**	**279,577**	**663,688**

The number of shares on 31 December 2006 amounted to 4,664,170 with a quotient value of SEK 2 per share.

Group contributions, SEK –3,774,000, pertain to net Group contributions provided in the amount of SEK 5,241,000 less the estimated tax effect of SEK 1,467,000 relating to the Group contributions.

Note 17 Bonds

In the second quarter of 2005 bonds were issued, raising MSEK 226 for the Company after issue costs. The bonds are to be repaid on 28 April 2008. The bonds do not carry interest during the first 12 months, after which 9 per cent interest is paid during the following two years. Interest is paid annually in arrears, as a consequence of which interest payments in the amount of MSEK 22.5 will be made for the first time on 27 April 2007 and thereafter in conjunction with the maturity date of the bonds on 27 April 2008. The nominal amount of the bond issue is MSEK 250.

During the second quarter of 2006, an additional bond issue raised MSEK 410 for the Company. The loan will mature on 16 November 2006. Commencing 17 November up to and including the maturity date, the bonds carry no coupon interest at a rate of 8.5 per cent. The interest due dates are 16 November 2007, 16 November 2008, 16 November 2009 and 16 November 2010. The nominal amount of the bond issue is MSEK 451.5.

The Company has undertaken to ensure that the ratio between total liabilities and total assets at no time exceeds 60 per cent.

Note 18 Other long-term liabilities

	The Group		The Parent Company	
	2006	2005	2006	2005
Financial leasing liabilities	51,165	–	–	–
Other long-term liabilities	1,125	1,437	–	–
Total	**52,290**	**1,437**	**–**	**–**

Note 19 Other short-term liabilities

	The Group		The Parent Company	
	2006	2005	2006	2005
Financial leasing liabilities	746	–	–	–
VAT liability	667	–	–	–
Liabilities regarding personnel	151	671	151	412
Other current liabilities	17	–	5	–
Total	**1,581**	**671**	**156**	**412**

Note 20 Accrued expenses and deferred income

	The Group		The Parent Company	
	2006	2005	2006	2005
Deferred rental income	6,950	1,585	–	–
Accrued interest expenses	19,690	–	19,691	–
Accrued personnel expenses	5,282	1,510	1,949	1,510
Other items	1,615	–	972	–
Total	**33,537**	**3,095**	**22,612**	**1,510**

Note 21 Security provided

	The Group		The Parent Company	
	2006	2005	2006	2005
Blocked funds	–	7,952	–	–
Total	**–**	**7,952**	**–**	**–**

Note 22 Transactions with closely affiliated parties

- In 2006, E. Öhman J:or Fondkommission AB, Corporate & Structured Finance, received SEK 15,455,000 in fees for advice in connection with, and execution of, the acquisition of capital in the form of a share issue subject to shareholder pre-emption rights and a bond issue.
- In 2006, E. Öhman J:or Fondkommission AB, Corporate & Structured Finance received, in addition to the aforementioned, SEK 244,000 in fees in its capacity as the liquidity guarantor, etc.
- As a consequence of new issues of shares resolved upon at extraordinary general meetings and carried out in the spring and autumn of 2006, closely affiliated parties and companies have been offered the opportunity to subscribe for shares and 2006/2007 A and B options subject to the same terms and conditions as other shareholders at the time of issue. Each 2006/2007 A option shall entitle the holder thereof to subscribe for one class A share, and each 2006/2007 B option shall entitle the holder thereof to subscribe for one class B share, in Ruric AB with a quotient value of SEK 2. Subscription for new shares in Ruric AB pursuant to these options may take place commencing 1 June 2007 up to and including 29 June 2007 at a recalculated subscription price of SEK 233.70 per share.
- The Managing Director, the incoming CFO and a member of the Board of Directors subscribed, in accordance with a resolution adopted by the Extraordinary General Meeting, a total of 61,000 2006/2009 options on market terms.
- Each 2006/2009 option shall entitle the holder thereof to subscribe for one class B share in Ruric AB with a quotient value of SEK 2, and subscription for new shares in Ruric AB pursuant to these options may take place commencing 10 August 2009 up to and including 10 September 2009 at a recalculated subscription price of SEK 359.30 per share.

In addition, E. Öhman J:or Fondkommission AB, Corporate & Structured Finance will be retained in 2007 to advise on, and execute, the share issue adopted by the Extraordinary General Meeting on 22 March 2007 and which authorised the Board of Directors to carry out such issue. The Board of Directors estimates that the cost will be MSEK 5.

Note 23 Commitments

Ruric has undertaken, pursuant to an investment agreement regarding the Moika/Glinki and Apraksin Dvor properties, to fulfil certain undertakings to obtain formal title. As of 31 December 2006, these remaining commitments are estimated to amount to approximately MSEK 405.

There are some financial commitments pursuant to the bonds. See Note 17.

Stockholm, 29 March 2007

Nils Nilsson
Chairmen of the Board of Directors

Tom Dinkelspiel

Jens Engwall

Gert Tiivas

Thomas Zachariasson
Managing Director

My auditors report was presented on 29 March 2007

Björn Fernström
Authorised Public Accountant

Auditor's Report

To the Annual General Meeting of Russian Real Estate Investment Company AB (publ)
Registration no. 556653-9705

We 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 (publ)for the year 2006 the financial year. The Board of Directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated 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 our opinion concerning discharge from liability, we 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. We 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. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company'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.

We 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 statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 29 March 2007

Ernst & Young AB

Björn Fernström
Authorised Public Accountant


RURIC
MANAGEMENT
ТЕХНОСТРОЙ
ИНВЕСТИЦИОННАЯ СТРОИТЕЛЬНАЯ КОМПАНИЯ

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