JSC HALS-Development and subsidiaries

Interim consolidated financial statements

30 June 2011

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Contents

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Report on review of interim consolidated financial statements

To the shareholders of JSC HALS-Development

Introduction

We have reviewed the accompanying interim consolidated financial statements of JSC HALS-Development, formerly known as JSC Sistema-Hals, and its subsidiaries ("the Group"), comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2011 and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Emphasis of matter

We draw attention to Note 2 in the interim consolidated financial statements which indicates that the Group incurred a net loss of RUR 1,075 million, had negative net assets of RUR 17,163 million as of 30 June 2011. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Ernst & Young LLC

29 September 2011

JSC HALS-Development and subsidiaries

Interim consolidated statement of comprehensive income

for the six-month period ended 30 June 2011

(Amounts in millions of Russian Rubles, except for shares and loss per share amounts)

	Notes	2011 (unaudited)	2010 (unaudited)
Rental income		119	116
Other property operating expense		(52)	(41)
Net rental income		**67**	**75**
Valuation losses on completed investment property	15	37	(948)
Valuation gains on investment property under construction	16	318	305
Net valuation gains on investment property		**355**	**(643)**
Sales of inventory property	7	57	–
Cost of sales - inventory property	20	(35)	–
Gross profit on sale of inventory property		**22**	**–**
Write-down of inventory property to net realizable value	20	(48)	(334)
Other sales	8	179	54
Cost of other sales		(65)	(28)
Gross profit on other sales		**114**	**26**
Administration expenses	9	(415)	(274)
Other operating income	10	304	306
Other operating expenses	11	(430)	(1,556)
Operating loss		**(31)**	**(2,400)**
Finance income	12	247	237
Finance expenses	13	(1,865)	(1,824)
Share of income/(loss) of associates and joint ventures, net of tax	17	22	(446)
Foreign exchange gain/(loss)		549	(253)
Loss before tax		**(1,078)**	**(4,686)**
Income tax	14	3	615
Loss for the year attributable to equity holders of the parent		**(1,075)**	**(4,071)**
Total comprehensive loss for the year attributable to equity holders of the parent		**(1,075)**	**(4,071)**
Weighted average number of common shares outstanding		11,186,229	11,160,877
Basic and diluted loss for the period per share, RUR		(96)	(100)

The accompanying notes are an integral part of these interim consolidated financial statements.

JSC HALS-Development and subsidiaries

Interim consolidated statement of financial position

As of 30 June 2011

(Amounts in millions of Russian Rubles)

	Notes	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Assets				
Non-current assets				
Property, plant and equipment	18	3,103	961	75
Completed investment property	15	5,790	5,232	6,860
Investment property under construction	16	16,157	10,684	13,355
Inventory property	20	14,028	12,196	6,250
Intangible assets	19	116	29	676
Loans and notes receivable	22	2,953	2,302	1,935
Investments in associates and joint ventures	17	4,392	4,565	2,533
VAT reimbursable		2,140	1,909	1,119
Other non-financial assets	24	8,669	4,133	2,331
Deferred tax assets	14	1,783	1,680	1,982
		59,131	**43,691**	**37,116**
Current assets				
Inventory property	20	3,961	3,999	7,644
Trade and other receivables	21	913	634	794
VAT reimbursable		256	95	306
Cash and short-term deposits	23	1,882	693	158
Other financial assets		140	–	60
Loans and notes receivable	22	835	880	658
Other non-financial assets	24	467	536	728
		8,454	**6,837**	**10,348**
Total assets		**67,585**	**50,528**	**47,464**
Equity and liabilities				
Equity				
Issued share capital	25	567	567	567
Treasury shares	25	(1)	(1)	(1)
Additional paid-in capital		18,296	18,296	18,276
Accumulated losses		(37,307)	(36,232)	(30,253)
Total equity attributable to equity holders of the parent		**(18,445)**	**(17,370)**	**(11,411)**
Non-controlling interest	6	1,282	–	–
Total equity		**(17,163)**	**(17,370)**	**(11,411)**
Non-current liabilities				
Net assets attributable to non-controlling participants in LLCs	29	29	41	157
Interest bearing loans and borrowings	26	71,644	55,313	35,306
Other non-financial liabilities	28	1,865	1,200	2,915
Deferred tax liability	14	4,251	3,026	3,634
		77,789	**59,580**	**42,012**
Current liabilities				
Interest bearing loans and borrowings	26	2,089	3,450	7,440
Trade and other payables	27	1,211	1,193	1,915
Provisions	10	144	220	111
Income tax payable		14	23	38
Other non-financial liabilities	28	3,501	3,432	7,359
		6,959	**8,318**	**16,863**
Total liabilities		**84,748**	**67,898**	**58,875**
Total equity and liabilities		**67,585**	**50,528**	**47,464**

The accompanying notes are an integral part of these interim consolidated financial statements.

JSC HALS-Development and subsidiaries

Interim consolidated statement of changes in equity

for the six-month period ended 30 June 2011

(Amounts in millions of Russian Rubles)

(unaudited)	Issued capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
At 1 January 2010	**567**	**(1)**	**18,276**	**(30,253)**	**(11,411)**	–	**(11,411)**
Total comprehensive loss for the period	–	–	–	(4,071)	**(4,071)**	–	**(4,071)**
Acquisition of treasury shares (Note 25)	–	(6)	(107)	–	**(113)**	–	**(113)**
Sale of treasury shares (Note 25)	–	6	127	–	**133**	–	**133**
At 30 June 2010	**567**	**(1)**	**18,296**	**(34,324)**	**(15,462)**	–	**(15,462)**

(unaudited)	Issued capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
At 31 December 2010	**567**	**(1)**	**18,296**	**(36,232)**	**(17,370)**	–	**(17,370)**
Total comprehensive loss for the period	–	–	–	(1,075)	**(1,075)**	–	**(1,075)**
Acquisition of subsidiaries (Note 6)	–	–	–	–	**–**	1,282	**1,282**
At 30 June 2011	**567**	**(1)**	**18,296**	**(37,307)**	**(18,445)**	**1,282**	**(17,163)**

The accompanying notes are an integral part of these interim consolidated financial statements.

JSC HALS-Development and subsidiaries

Interim consolidated cash flow statement

for the six-month period ended 30 June 2011

(Amounts in millions of Russian Rubles)

	Notes	2011 (unaudited)	2010 (unaudited)
Operating activities			
Loss before tax		(1,078)	(4,686)
Adjustments to reconcile loss before tax to net cash flows:			
Changes in fair value of investment property	15,16	(355)	643
Share of profit in associates and joint ventures	17	(22)	446
Loss from remeasurement of investments in associates to fair value	6	64	150
Loss on acquisition	6	–	952
Impairment of development rights	19	–	282
Excess of the net fair value of the acquiree's identifiable assets and liabilities over the consideration	6	(65)	–
Depreciation and amortization	18,19	41	21
Write-down of inventory property to net realizable value	20	48	334
Finance income	12	(247)	(237)
Finance expenses	13	1,865	1,824
Changes in legal provision	10	(56)	–
Recover of receivables written off in prior period	10	(129)	(238)
Changes in tax provision	10	(20)	–
Receivables write off	11	241	38
Foreign currency (gain) / loss		(549)	253
Working capital adjustments:			
Change in trade and other receivables, VAT reimbursable and other non-financial assets		(4,995)	1,599
Change in inventory property		(1,214)	(814)
Change in trade, other payables and non-financial liabilities		366	(438)
Cash flow used in operating activities		**(6,105)**	**129**
Income tax paid		125	(7)
Net cash flow used in operating activities		**(5,980)**	**122**
Investing activities			
Acquisition of businesses, net of cash acquired	6	(2,982)	(1,299)
Capital expenditure on completed investment property		(60)	(187)
Expenditure on investment property and property, plant and equipment under construction		(30)	(12)
Investments in associates and joint ventures		–	(2,344)
Loans issued		(504)	(865)
Interest received		4	4
Net cash flow used in investing activities		**(3,572)**	**(4,703)**
Financing activities			
Proceeds from borrowings		14,282	11,010
Redemption of borrowings		(3,194)	(5,338)
Purchase of treasury shares	25	–	(113)
Proceeds from sale of treasury shares	25	–	118
Interest paid		(344)	(574)
Net cash flow from financing activities		**10,744**	**5,103**
Effects of foreign currency translation on cash and cash equivalents		(3)	(1)
Net increase in cash and cash equivalents		**1,189**	**521**
Cash and cash equivalents at 1 January	23	693	158
Cash and cash equivalents at 30 June	23	**1,882**	**679**

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Corporate information

JSC HALS-Development, formerly known as JSC Sistema-Hals,("HALS-Development" or the "Company") and subsidiaries (together – the "Group") are engaged in real estate development, primarily focused on the "Class A" and "Class B" buildings of the Moscow office market, shopping centers, high-end housing, single family houses, apartment buildings and land development. The Group's revenues are derived principally from the following activities:

- Sale of completed development projects, both commercial and residential, as well as the sale of rights for land; and
- Rental income from completed development projects.

The Group's operations are conducted in the Russian Federation (hereinafter referred to as "the RF") and the Commonwealth of Independent States ("the CIS"), primarily in Moscow, the Moscow Region, the Nizhniy Novgorod region, Sochi, Kiev and Saint-Petersburg. The majority of the Group entities are incorporated in the RF.

As at 30 June 2011, 31 December 2010 and 1 January 2010, OJSC VTB Bank ("VTB") owned 51.24% of the share capital of the Company. As at 1 January 2010 the share of AFK Sistema in Company's capital amounted to 27.6%. In 2010 AFK Sistema sold its stake to Blairwood Limited (Cyprus) and Stoneflower Limited (Cyprus), each of which held 13.8% of the Company's capital as at 30 June 2011 and 31 December 2010. The ultimate shareholder of the Group is the state of Russian Federation, acting through the Federal Property Agency.

These interim consolidated financial statements at 30 June 2011 and for the six-month period then ended were authorised for issue by the President of the Company on 29 September 2011.

2. Basis of preparation

For all periods up to and including the year ended 31 December 2010, the Group prepared its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

These interim consolidated financial statements have been prepared as part of the Group's adoption of International Financial Reporting Standards ("IFRS") in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). In preparing these financial statements, the Group's opening financial statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS.

The interim consolidated financial statements have been prepared on a historical cost basis, except for investment property measured at fair value and property, plant and equipment and development rights revalued to determine deemed cost as part of adoption of IFRS.

These interim consolidated financial statements are presented in the Russian Rouble ("RUR") and all values are rounded to the nearest million, except when otherwise indicated.

2. Basis of preparation (continued)

As the Group has never previously prepared IFRS financial statements it qualifies as a first time adopter under IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain IFRS effective for December 2011 year-end. The Group has applied the following exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 January 2010. As a result, in the opening statement of financial position, goodwill arising from past business combinations remains as stated under US GAAP as of 31 December 2009.
- Items of property, plant and equipment were recorded at fair values as deemed cost at the date of transition to IFRS.
- Development rights were recorded at fair values as deemed cost at the date of transition to IFRS.
- The Group has applied the transitional provision in IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and has assessed all arrangements as at the date of transition to IFRS.

In accordance with IFRS 1, the Group applies the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first complete set of IFRS financial statements. Those accounting policies should comply with each IFRS effective at the reporting date for its first complete set of annual IFRS financial statements (i.e., as at 31 December 2011).

In preparing these interim consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its US GAAP consolidated statement of financial position as at 1 January 2010, its previously published US GAAP consolidated financial statements for the year ended 31 December 2010 and US GAAP interim consolidated financial statements for the six-month period ended 30 June 2010.

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 1 January 2010 (date of transition to IFRS)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Assets							**Non-current assets**
Buildings used for administrative purposes, plant and equipment, net	D	5,557	168	–	(93)	75	Property, plant and equipment
Development rights and other intangible assets	F	15,810	478	–	198	676	Intangible assets
Income producing properties	C	112,335	3,397	–	3,463	6,860	Completed investment property
Real estate developed for sale		287,145	8,684	(8,684)	–	–	
Real estate developed to hold and to use		440,582	13,325	(13,325)	–	–	
Costs and estimated earnings in excess of billings on uncompleted contracts		67,999	2,057	(2,057)	–	–	
	C	–	–	13,011	344	13,355	Investment property under construction
	A, B	–	–	4,943	1,307	6,250	Inventory property
Investments in associates and joint ventures	H	62,286	1,884	–	649	2,533	Investments in associates and joint ventures
Deposits, loans receivable and investments in debt and equity securities		35,248	1,066	869	–	1,935	Loans and notes receivable
Taxes receivable	E	66,104	1,999	(662)	(218)	1,119	VAT reimbursable
Deferred tax assets	G	10,218	309	–	1,673	1,982	Deferred tax assets
		–	–	2,331	–	2,331	Other non-financial assets
							Current assets
		–	–	306	–	306	VAT reimbursable
	A, B	–	–	3,697	3,947	7,644	Inventory property
Trade receivables, net		53,901	1,630	(836)	–	794	Trade and other receivables
Other receivables, net		40,057	1,210	(1,210)		–	
Cash and cash equivalents		5,216	158	–	–	158	Cash and short-term deposits
		–	–	60	–	60	Other financial assets
Debt issuance costs, net of accumulated amortization		843	28	630	–	658	Loans and notes receivable
		–	–	728	–	728	Other non-financial assets
Total assets		**1,203,301**	**36,393**	**(199)**	**11,270**	**47,464**	**Total assets**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 1 January 2010 (date of transition to IFRS) (continued)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Shareholders' deficit							**Equity**
Share capital		20,492	567	–	–	567	Issued share capital
Treasury stock		(18)	(1)	–	–	(1)	Treasury shares
Additional paid-in capital		652,243	18,276	–	–	18,276	Additional paid in capital
Accumulated deficit	A-J	(954,065)	(28,233)	–	(2,020)	(30,253)	Accumulated losses
Accumulated other comprehensive loss		(29,145)	–	–	–	–	
Total Sistema-Hals' Shareholders' deficit		**(310,493)**	**(9,391)**	–	**(2,020)**	**(11,411)**	**Total equity attributable to equity holders of the parent**
Non-controlling interest		(33,209)	(1,004)	1,004	–	–	
Total shareholders' deficit		**(343,702)**	**(10,395)**	**1,004**	–	–	**Non-current liabilities**
	I	–	–	(1,004)	1,161	157	Net assets attributable to non-controlling participants in LLCs
Loans and notes payable		1,301,565	39,365	(4,059)	–	35,306	Interest bearing loans and borrowings
Billings in excess of costs and estimated earnings on uncompleted contracts		17,456	528	(528)	–	–	
	A	–	–	153	2,762	2,915	Other non-financial liabilities
Accrued expenses and other liabilities		134,626	4,072	(4,072)	–	–	
Deferred tax liabilities	G	48,994	1,482	–	2,152	3,634	Deferred tax liabilities
							Current liabilities
		–	–	7,440	–	7,440	Interest bearing loans and borrowings
Payables to suppliers and subcontractors		38,846	1,175	740	–	1,915	Trade and other payables
		–	–	111	–	111	Provisions for contingencies
		–	–	38	–	38	Income tax payable
	A	–	–	144	7,215	7,359	Other non-financial liabilities
Taxes payable		5,516	166	(166)	–	–	
Total liabilities		**1,547,003**	**46,788**	**(1,203)**	**13,290**	**58,875**	**Total liabilities**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 30 June 2010 (unaudited)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Assets							**Non-current assets**
Buildings used for administrative purposes, plant and equipment, net	D	5,204	162	664	21	847	Property, plant and equipment
Development rights and other intangible assets	F	9,020	281	–	21	302	Intangible assets
Income producing properties	C	107,150	3,343	–	2,425	5,768	Completed investment property
Real estate developed for sale		324,841	10,134	(10,134)	–	–	
Real estate developed to hold and to use		331,199	10,332	(10,332)	–	–	
Costs and estimated earnings in excess of billings on uncompleted contracts		54,324	1,695	(1,695)	–	–	
	C	–	–	9,719	1,056	10,775	Investment property under construction
	A, B	–	–	6,944	3,211	10,155	Inventory property
Investments in associates and joint ventures	H	105,005	3,267	–	664	3,931	Investments in associates and joint ventures
Deposits, loans receivable and investments in debt and equity securities		10,315	322	1,106	–	1,428	Loans and notes receivable
Taxes receivable	E	63,024	1,966	(237)	(179)	1,550	VAT reimbursable
Deferred tax assets	G	33,780	1,054	–	1,151	2,205	Deferred tax assets
		–	–	2,282	–	2,282	Other non-financial assets
							Current assets
		–	–	109	–	109	VAT reimbursable
	A, B	–	–	3,260	4,303	7,563	Inventory property
Trade receivables, net		56,994	1,778	(1,050)	–	728	Trade and other receivables
Other receivables, net		87,608	2,735	(2,735)	–	–	
Cash and cash equivalents		21,766	679	–	–	679	Cash and short-term deposits
Debt issuance costs, net of accumulated amortization		422	13	1,464	–	1,477	Loans and notes receivable
		–	–	447	–	447	Other non-financial assets
Total assets		**1,210,651**	**37,761**	**(188)**	**12,673**	**50,246**	**Total assets**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 30 June 2010 (unaudited) (continued)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Shareholders' deficit							**Equity**
Share capital		20,492	567	–	–	567	Issued share capital
Treasury stock		(6)	(1)	–	–	(1)	Treasury shares
Additional paid-in capital		652,751	18,296	–	–	18,296	Additional paid in capital
Accumulated deficit	A-J	(1,197,640)	(35,551)	–	1,227	(34,324)	Accumulated losses
Accumulated other comprehensive loss		(10,898)	–	–	–	–	
Total Sistema-Hals' Shareholders' deficit		**(535,301)**	**(16,689)**	–	**1,227**	**(15,462)**	**Total equity attributable to equity holders of the parent**
Non-controlling interest		(33,059)	(1,031)	1,031	–	–	
Total shareholders' deficit		**(568,360)**	**(17,720)**	**1,031**	–	–	**Non-current liabilities**
	I	–	–	(1,031)	1,164	133	Net assets attributable to non-controlling participants in LLCs
Loans and notes payable		1,451,052	45,266	252	–	45,518	Interest bearing loans and borrowings
Billings in excess of costs and estimated earnings on uncompleted contracts		17,786	555	(555)	–	–	
	A	–	–	(1,748)	4,684	2,936	Other non-financial liabilities
Accrued expenses and other liabilities		182,944	5,699	(5,699)	–	–	
Deferred tax liabilities	G	64,138	1,993	–	1,246	3,239	Deferred tax liabilities
							Current liabilities
		–	–	4,859	–	4,859	Interest bearing loans and borrowings
Payables to suppliers and subcontractors		58,685	1,831	274	–	2,105	Trade and other payables
							Provisions for contingencies
		–	–	111	–	111	Income tax payable
	A	–	–	2,455	4,352	6,807	Other non-financial liabilities
Taxes payable		4,406	137	(137)	–	–	
Total liabilities		**1,779,001**	**55,481**	**(1,219)**	**11,446**	**65,708**	**Total liabilities**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 31 December 2010

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Assets							**Non-current assets**
Buildings used for administrative purposes, plant and equipment, net	D	5,172	158	856	(53)	961	Property, plant and equipment
Development rights and other intangible assets	F	1,138	35	–	(6)	29	Intangible assets
Income producing properties	C	88,117	2,686	–	2,546	5,232	Completed investment property
Real estate developed for sale		457,972	13,958	(13,958)	–	–	
Real estate developed to hold and to use		445,441	13,576	(13,576)	–	–	
Costs and estimated earnings in excess of billings on uncompleted contracts		28,205	860	(860)	–	–	
	C	–	–	10,785	(101)	10,684	Investment property under construction
	A, B	–	–	11,230	966	12,196	Inventory property
Investments in associates and joint ventures	H	155,699	4,745	64	(244)	4,565	Investments in associates and joint ventures
Deposits, loans receivable and investments in debt and equity securities		94,840	2,890	(588)	–	2,302	Loans and notes receivable
Taxes receivable	E	78,590	2,395	(362)	(124)	1,909	VAT reimbursable
Deferred tax assets	G	22,522	686	–	994	1,680	Deferred tax assets
		–	–	4,133	–	4,133	Other non-financial assets
							Current assets
		–	–	95	–	95	VAT reimbursable
	A, B	–	–	1,791	2,208	3,999	Inventory property
Trade receivables, net		6,782	206	428	–	634	Trade and other receivables
Other receivables, net		38,849	1,185	(1,185)	–	–	
Cash and cash equivalents		22,782	693	–	–	693	Cash and short-term deposits
Debt issuance costs, net of accumulated amortization		3	0	880	–	880	Loans and notes receivable
		–	–	536	–	536	Other non-financial assets
Total assets		**1,446,112**	**44,073**	**269**	**6,186**	**50,528**	**Total assets**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 31 December 2010 (continued)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Shareholders' deficit							**Equity**
Share capital		20,492	567	–	–	567	Issued share capital
Treasury stock		(9)	(1)	–	–	(1)	Treasury shares
Additional paid-in capital		652,945	18,296	–	–	18,296	Additional paid-in capital
Accumulated deficit	A-J	(1,201,976)	(35,756)	–	(476)	(36,232)	Accumulated losses
Accumulated other comprehensive loss		(25,974)	–	–	–	–	
Total Sistema-Hals' shareholders' deficit		**(554,522)**	**(16,894)**	**–**	**(476)**	**(17,370)**	**Total equity attributable to equity holders of the parent**
Non-controlling interest		(33,994)	(1,041)	1,041	–	–	
Total shareholders' deficit		**(588,516)**	**(17,935)**	**1,041**	**–**	**–**	
							Non-current liabilities
Non-controlling interest	I	–	–	(1,041)	1,082	41	Net assets attributable to non-controlling participants in LLCs
Loans and notes payable		1,691,086	51,539	3,774	–	55,313	Interest bearing loans and borrowings
Billings in excess of costs and estimated earnings on uncompleted contracts	A	22,460	684	516	–	1,200	Other non-financial liabilities
Accrued expenses and other liabilities		260,601	7,942	(7,942)	–	–	Other financial liabilities
Deferred tax liabilities	G	23,564	717	–	2,309	3,026	Deferred tax liability
							Current liabilities
		–	–	3,450	–	3,450	Interest bearing loans and borrowings
Payables to suppliers and subcontractors		29,125	888	305	–	1,193	Trade and other payables
		–	–	220	–	220	Provisions for contingencies
		–	–	23	–	23	Income tax payable
	A	–	–	161	3,271	3,432	Other non-financial liabilities
Taxes payable		7,792	238	(238)	–	–	
Total liabilities		**2,034,628**	**62,008**	**(772)**	**6,662**	**67,898**	**Total liabilities**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of total comprehensive loss for the year ended 31 December 2010

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Revenues		26,409	800	(800)	–	–	
Operating expenses		(141,228)	(4,283)	4,283	–	–	
Operating loss		**(114,819)**	**(3,483)**	**–**	**–**	**–**	
		–	–	212	–	212	Rental income
		–	–	(92)	–	(92)	Other property operating expense
		–	**–**	**–**	**–**	**120**	**Net rental income**
	C	–	–	–	(1,525)	(1,525)	Valuation losses from completed investment property
	C	–	–	(2,782)	4,943	2,161	Valuation gains from investment property under construction
		–	**–**	**–**	**–**	**636**	**Net valuation gains on investment property**
	A	–	–	503	3,017	3,520	Sales of inventory properties
	A, B	–	–	(291)	(2,949)	(3,240)	Cost of sales – inventory property
		–	**–**	**–**	**–**	**280**	**Gross profit on sale of inventory property**
	B	–	–	(15)	(824)	(839)	Write-down of inventory property to net realizable value
		–	–	85	–	85	Other sales
		–	–	(34)	–	(34)	Cost of other sales
		–	**–**	**–**	**–**	**51**	**Profit on other sales**
	D	–	–	(1,068)	376	(692)	Administration expenses
		–	–	757	–	757	Other operating income
Other expenses, net	F, H	(47,808)	(1,458)	(917)	414	(1,961)	Other operating expenses
		–	**–**	**–**	**–**	**(1,648)**	**Operating loss**
Gain/(loss) on disposal of subsidiaries	J	5,278	162	–	(246)	(84)	Loss on disposal of subsidiary
Interest income	I, E	10,137	309	201	210	720	Finance income
Interest expense		(120,784)	(3,663)	(42)	–	(3,705)	Finance expenses
Loss from associates and joint ventures	H	(19,079)	(583)	–	(880)	(1,463)	Share of loss of associates and joint ventures, net of tax
Gain/(loss) on foreign currency transactions		1,964	64	–	–	64	Foreign exchange gain
Loss from continuing operations before income tax and non-controlling interests		**(285,111)**	**(8,652)**	**–**	**2,536**	**(6,116)**	**Loss before tax**
Income tax credit	G	35,989	1,100	–	(963)	137	Income tax
Loss from continuing operations before non-controlling interests		**(249,122)**	**(7,552)**	**–**	**1,573**	**(5,979)**	**Loss for the year attributable o equity holders of the parent**
Net loss attributable to non-controlling interests		1,211	37	(37)	–	–	

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of total comprehensive loss for the six-month period ended 30 June 2010 (unaudited)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Revenues		14,344	440	(440)	–	–	
Operating expenses		(152,187)	(4,671)	4,671	–	–	
Operating loss		**(137,843)**	**(4,231)**	**–**	**–**	**–**	
		–	–	116	–	116	Rental income
		–	–	(41)	–	(41)	Other property operating expense
		–	**–**	**–**	**–**	**75**	**Net rental income**
	C	–	–	–	**(948)**	**(948)**	Valuation losses from completed investment property
	C	–	–	**(3,670)**	**3,975**	**305**	Valuation gains from investment property under construction
		–	**–**	**–**	**–**	**(643)**	**Net valuation gains on investment property**
		–	–	–	–	–	Sales of inventory properties
		–	–	–	–	–	Cost of sales – inventory property
		–	**–**	**–**	**–**	**–**	**Gross profit on sale of inventory property**
	B	–	–	–	(334)	(334)	Write-down of inventory property to net realizable value
		–	–	54	–	54	Other sales
		–	–	(28)	–	(28)	Cost of other sales
		–	**–**	**–**	**–**	**26**	**Profit on other sales**
	D	–	–	(449)	175	(274)	Administration expenses
		–	–	306		306	Other operating income
Other expenses, net	F, H	(42,454)	(1,303)	(560)	307	(1,556)	Other operating expenses
		–	**–**	**–**	**–**	**(2,400)**	**Operating loss**
Interest income	I, E	4,130	127	8	102	237	Finance income
Interest expense		(60,482)	(1,856)	32	–	(1,824)	Finance expenses
Loss from associates and joint ventures	H	(5,594)	(172)	–	(274)	(446)	Share of loss of associates and joint ventures, net of tax
Loss on foreign currency transactions		(8,989)	(253)	–		(253)	Foreign exchange loss
Loss from continuing operations before income tax and non-controlling interests		**(251,232)**	**(7,687)**	**–**	**3,003**	**(4,686)**	**Loss before tax**
Income tax credit	G	7,617	234	–	381	615	Income tax
Loss from continuing operations before non-controlling interests		**(243,615)**	**(7,455)**	**–**	**3,384**	**(4,071)**	**Loss for the year attributable o equity holders of the parent**
Net loss attributable to non-controlling interests		1,056	32	(32)	–	–	

2. Basis of preparation (continued)

Notes to the reconciliation of equity as at 1 January, 30 June and 31 December 2010 and total comprehensive income for the six–month period ended 30 June 2010 and the year ended 31 December 2010

Presentation differences

- Under US GAAP assets and liabilities are presented in order of liquidity when under IFRS current assets and liabilities are distinguished from non-current ones.
- Non-controlling interest in subsidiaries, which are limited liability companies, is recognized as shareholders' deficit under US GAAP versus liability as required under IFRS. Under IFRS share of non-controlling participants in loss of those subsidiaries is presented in the statement of comprehensive income as finance income.
- Real estate developed for sale under US GAAP comprises projects on construction of real estate for future sale in the ordinary course of business and was classified as inventory property under IFRS. Advances issued for construction of such properties are classified as other non-financial assets under IFRS versus recognition of such advances as part of real estate developed for sale under US GAAP.
- Real estate developed to hold and to use under US GAAP classified as investment property under construction and property, plant and equipment under IFRS. Advances issued for construction of such properties are classified as other non-financial assets under IFRS versus recognition of such advances as part of real estate developed to hold and to use under US GAAP.
- Other reclassifications of assets and liabilities to comply with IFRS presentation of statement of financial position.

Measurement and recognition differences

A. Revenue recognition

Under US GAAP Revenues from development of office buildings, apartments, condominiums, shopping centers and similar structures are recognized, in accordance with ASC 360 – 20 *Property, Plant and Equipment – Real Estate Sales*, prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for nondelivery of the property; (c) sales prices are collectible; and (d) aggregate sales proceeds and costs can be reasonably estimated.

Under IFRS, as explained in Note 4, revenues are recognized for inventory property sales pursuant to IAS 18 at closing when all of the revenue recognition criteria for the sale of goods have been met as a sales contract is not in the scope of IAS 11 or there is no continuous transfer of control and risks and rewards under IAS 18.

B. Inventory property

Under US GAAP real estate developed for sale is stated at lower of cost or fair value less cost to sell. Impairment evaluation performed when indicators of impairment are present. A write-down of property is a new cost basis and the impairment cannot be recovered in future periods.

Under IFRS, as explained in Note 4, inventory property is carried at lower of cost or net realizable value (NRV). Assessment of NRV performed each reporting period. Previously recognized impairment losses are reversed up to original cost if reasons for impairment no longer exist.

2. Basis of preparation (continued)

Notes to the reconciliation of equity as at 1 January, 30 June and 31 December 2010 and total comprehensive income for the six–month period ended 30 June 2010 and the year ended 31 December 2010 (continued)

C. Investment property

Under US GAAP real estate property to hold and to use and income producing properties are carried at historical cost less accumulated depreciation and impairment losses. In accordance with ASC 360 *Impairment or Disposal of Long-Lived Assets* the Group evaluated the recoverability of the carrying amount of its long-lived assets whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. The Group compared undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows were less than the carrying amounts of the assets, the Group recorded impairment losses to write the asset down to fair value. The impairment cannot be recovered in future periods.

Under IFRS, as explained in Note 4, the Group selected to measure investment property at fair value at each reporting date with movements in fair value taken to profit or loss.

D. Property, plant and equipment

The Group elected to measure certain items of property, plant and equipment at fair values at the date of transition to IFRS. This resulting difference was recognized against accumulated losses.

E. Long-term VAT recoverable

Under US GAAP long-term VAT recoverable is stated at cost. Under IFRS, as explained in Note 4, the Group selected to account for long-term VAT recoverable at fair value at inception date and measured at amortised cost at subsequent reporting dates.

F. Intangible assets

The Group elected to measure development rights at fair values at the date of transition to IFRS. This resulting difference was recognized in accumulated losses.

G. Deferred taxes

Various measurement and recognition differences between US GAAP and IFRS described above led to temporary differences under IFRS and were recognized accordingly.

H. Investments in associates and joint ventures

Investments in associates and joint ventures measurement and recognition differences between US GAAP and IFRS are mostly driven by differences in valuation of underlying projects as described above.

I. Net assets attributable to non-controlling participants in LLCs

Measurement differences in net assets attributable to non-controlling participants in LLCs in accordance with IFRS as compared to US GAAP are mostly caused by differences in valuation of underlying projects as described above.

J. Loss on disposal of subsidiary

Measurement differences in the result of disposal of subsidiary in accordance with IFRS as compared to US GAAP are mostly caused by differences in valuation of underlying projects as described above.

2. Basis of preparation (continued)

Notes to the reconciliation of equity as at 1 January, 30 June and 31 December 2010 and total comprehensive income for the six–month period ended 30 June 2010 and the year ended 31 December 2010 (continued)

Cash flow statement

No material adjustments to the statement of cash flows were made on transition to IFRS, expect the following:

- reclassification of interest paid from operating activity in the US GAAP consolidated statement of cash flows to financing activity in the interim consolidated statement of cash flows under IFRS;
- cash flows on real estate developed for sale were classified as investing activity in the US GAAP consolidated statement of cash flows versus classification of cash flows on inventory property under changes in working capital in operating activity in the interim consolidated statement of cash flows under IFRS.

Going concern

As at 30 June 2011, the Group's negative net assets amounted to RUR 17,163 million (31 December 2010: RUR 17,370 million). The Group incurred a net loss of RUR 1,075 million for the six-month period ended 30 June 2011 (2010: RUR 4,071 million).

The Group's ability to complete projects under development and fund its contractual commitments/co-investment contracts requires a significant amount of capital and liquidity.

Management of the Group has assessed its current strategic and operational intentions, future profitability of its operations based on the current market conditions, its cash requirements, and its ability to access financing and associated cost of such financing. Based on this assessment, management has taken the following actions:

- management assessed the Group's portfolio of projects and has prioritized those that it believes are more strategic to the Group, and suspended other activities in order to reduce its cash requirements;
- during 2011 the Group continued to restructure its debt portfolio. Certain borrowings were repaid using new facilities obtained from VTB, the Group controlling shareholder. VTB's loans now account for approximately 94% of the Group's total loans and notes payable (see Note 26).

Management believes, based on the actions undertaken, that it will have adequate liquidity to continue to fund its liabilities and operations and continue as a going concern for the next year.

The conditions described above represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. In such case, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

These interim consolidated financial statements have been prepared based on the assumption that the Group is able to continue its business as a going concern. The interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the interim consolidated financial statements.

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Impairment of goodwill

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

Classification of properties

The Group determines whether a property is classified as own property, plant and equipment, investment property or inventory properties:

- Investment property comprises land and buildings (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Inventory property comprises properties that are held for sale in the ordinary course of business. Principally, this is residential properties that the Group develops and intends to sell before or on completion of construction.
- Property, plant and equipment comprises properties that are held for use in supply of goods or services or for administrative purposes.

3. Significant accounting judgements, estimates and assumptions (continued)

Operating lease contracts – Group as a lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.

Estimation of net realisable value for inventory property

Inventory is stated at the lower of cost and net realisable value (NRV).

NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

NRV for property under construction is assessed with reference to the selling market prices at the reporting date for similar completed property, less estimated cost to complete the construction provided in the current construction budget, adjusted for the time value of money if material.

Valuation of investment property

The fair value of investment property is determined by Company's internal valuers using recognised valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group assets.

Investment property under construction is also valued at fair value as determined by Company's internal valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at reporting date.

The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in Notes 15 and 16.

3. Significant accounting judgements, estimates and assumptions (continued)

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 14.

4. Summary of significant accounting policies

Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The interim financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

(Amounts in millions of Russian Rubles, unless otherwise stated)

4. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The ownership interest of Company and the proportion of its voting power in its major subsidiaries as of 30 June 2011, 31 December 2010 and 1 January 2010 were as follows:

			Ownership interest and voting power		
Operating entities	**Location**	**Project**	**30 June 2011**	**31 December 2010**	**1 January 2010**
Beiging-Invest	Russia	Pekin Hotel	100%	100%	100%
Bolshoy City	Russia	Bolshoi City	100%	100%	100%
Hals-Stroy	Russia	Michurinsky, Elninsksya	100%	100%	100%
IRT	Russia	Niidar	100%	100%	100%
Kuntsevo-Invest	Russia	Kuntsevo	100%	100%	100%
Sapidus	Cyprus	Holding Company	100%	100%	100%
SIB-BROK	Ukraine	Yalta	100%	100%	100%
TRK Kazan	Russia	Detski Mir Kazan	100%	100%	100%
Lubyanka-development	Russia	Detski Mir Moscow	100%	100%	100%
Sistema-Hals Nord-West (ZAO)	Russia	Leto	76%	76%	76%
Gorki-8	Russia	Gorki Townhouses	75%	75%	75%
Istochnik	Russia	Gorki Pole	75%	75%	75%
RTI-Estate	Russia	8 Marta	51%	51%	51%
Hals-Technopark	Russia	Povarskaya	50%	50%	100%
Astanda	Cyprus	Kamelia	100%	100%	50%
CiTer Invest B.V.	Netherlands	Moscow-City	50.5%	–	–
GOK Pekin	Russia	Pekin Hotel	100%	–	–

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill

Goodwill only arises upon a business combination and is initially measured as the residual cost of the business combination after recognising the acquiree's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is not amortised, but is tested for impairment at least annually.

4. Summary of significant accounting policies (continued)

Goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Interests in jointly controlled entities

The Group has contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities.

Where the joint venture is established through an interest in a company (a jointly controlled entity), the Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group's statement of comprehensive income reflects the share of the jointly controlled entity's results after tax.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The interim financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of comprehensive income.

4. Summary of significant accounting policies (continued)

Investment in an associate (continued)

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Classification of assets and liabilities

The Group's normal operating cycle is not clearly identifiable therefore it is assumed to be twelve months. Assets and liabilities are classified as current if they are expected to be realized or settled within the twelve months after the balance sheet date. All other assets and liabilities are classified as non-current.

Foreign currency translation

The interim consolidated financial statements are presented in Russian Roubles, which is a functional currency of the Company and all its subsidiaries. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset including investment property under construction and inventory property that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

4. Summary of significant accounting policies (continued)

Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Investment property also includes land with a currently undetermined future use. Property held under a lease is classified as investment property when the definition of an investment property is met. The lease obligation is recognised under IAS 17 at fair value of the interest in the leasehold property.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss in the year in which they arise. For the purposes of these interim consolidated financial statements, in order to avoid 'double accounting', the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments
- Increased by the carrying amount of any liability to the superior leaseholder or freeholder that has been recognised in the statement of financial position as a finance lease obligation.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the profit or loss in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 30 years
- Plant and equipment 3 to 5 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Developments rights

Expenditure on obtaining development rights, necessary to start construction activities, are recognised in intangible assets if the projects are technically and commercially feasible and the Group has sufficient resources to accomplish the development of the projects.

Capitalised development rights recognised on initial acquisition as intangible assets are measured at cost less accumulated impairment losses until the development starts. On commencement of construction such development rights are reclassified as construction in progress, included in inventories.

4. Summary of significant accounting policies (continued)

Financial assets

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

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

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.
VAT recoverable arises when VAT related to purchases exceeds VAT related to sales. Long term VAT recoverable is recognised at fair value at inception date and measured at amortised cost at subsequent reporting dates.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

4. Summary of significant accounting policies (continued)

Loans and borrowings (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

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

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

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date less costs to complete and the estimated selling expenses, adjusted for the time value of money if material.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

The Group has considered the application of IFRIC 15 to these contracts and concluded that these ‘pre-completion’ contracts were not, in substance, construction contracts. However, where the legal terms were such that the construction represented the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition has been applied and revenue recognised as work progressed. Development expenditure incurred in respect of inventory dealt with under the percentage of completion method is recognised in profit or loss in the period incurred.

Revenue from sales of residential properties where the contracts are not in substance construction contracts and do not lead to a continuous transfer of work in progress, is recognised in accordance with revenue recognition section presented below.

4. Summary of significant accounting policies (continued)

Exchange transactions

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Based on the investment agreements the Group is obliged to construct buildings, where a part of apartments and non-residential premises are transferred to the local authorities for no consideration. The obligation of the Group to deliver certain number of apartments to the local authorities is a part of investment contract granting to the Group the right to construct buildings, so the Group exchanges real estate properties for the development right.

The goods exchanged are of different nature and therefore there is a substance to these transactions and the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of development right received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

As far as the development right was received before apartments are transferred to the authorities the non-financial liability to deliver apartments at future date is recognized. At the date of exchange, which is normally the date of investment agreement, the Group recognizes the development rights as intangible asset (to be further included in total costs of construction of such buildings) and the obligations to develop property as non-financial liability (being by nature the advance payment received from the authorities). At the date when the act of acceptance is signed, the Group should recognize revenue. Cost of construction of apartments and facilities to be transferred to the authorities are accounted for as work in progress until construction is completed and recognized as cost of sales when sales to authorities are recognized.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five-years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Impairment losses of continuing operations, including impairment on inventory, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Cash and short term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less.

Net assets attributable to non-controlling participants in LLCs

Some non-controlling interests in the Group's subsidiaries, established in the form of a limited liability company ("LLC"), do not satisfy the conditions of an equity instrument, since in accordance with the legislation of Russian Federation and charters, participants of those subsidiaries have a right to request the redemption of their interests in cash. Based on the provisions of the law determining the exit period, the net assets attributable to non-controlling participants in LLC had been presented within non-current liabilities. Share of non-controlling participants in profit or loss of those subsidiaries is presented in the statement of comprehensive income as finance income or expense.

Revenue recognition

Rental income

Rental income receivable from operating leases, less the Group's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the profit or loss when they arise.

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

4. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue, as the directors consider that the Group acts as principal in this respect.

Sales of real estate property

Revenue from the sale of real estate properties is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Time of the transfer of risks and benefits vary depending on the specific conditions of the contract of sale. There are two variant of revenue from pre-sale of constructed apartments:

- in the CPJC (the contract of participation in joint construction) – revenue is recognized at the time of signing the act of reception and transmission of apartment;
- in the contract of transfer of rights to previously signed investment contract - revenue is recognized at the time of signing of the act of investment contract completion.

Revenue from sale of completed properties is recognized at the date when risks and rewards are transferred to the buyers which is usually the date of title registration.

Revenue from construction services

Revenue from construction services is recognized by reference to the stage of completion. Stage of completion is measured by reference to actual costs incurred to date as a percentage of total estimated costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and accrues provisions where appropriate.

4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary differences can be controlled by the parent, venturer or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The element of the total carrying amount of the investment property represented by the land is considered non-depreciable. The directors estimate the depreciable amount and residual value of the building element on a property by property basis.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement. Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty related costs is revised annually.

Segment information

The Group’s business operations are located in the Russian Federation and the CIS and relate primarily to real estate development. Management monitors the operating results of its business units based on development projects separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the results of the cash flows, representing the movement in cash flows for the reporting period. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on accrual basis, and management accounts are prepared on cash basis. The Group considers that it has four operating segment under IFRS 8. The majority of the Group's revenue and non-current assets are generated and located in Russia.

5. Standards issued but not yet effective

IFRS 9 Financial Instruments

In November 2009 the IASB issued the first phase of IFRS 9 *Financial instruments*. This Standard will eventually replace IAS 39 *Financial Instrument: Recognition and Measurement*. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position.

Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis The Group now evaluates the impact of the adoption of these amendments.

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

On 20 December 2010, the IASB issued *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendments to IFRS 1). These amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. Currently the Group evaluates possible effect of these amendments on its financial position and performance.

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

5. Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 *Joint Arrangements* improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits* today, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). The result is greater balance sheet volatility for those entities currently applying the corridor approach. In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. Expected returns on plan assets will be replaced by a credit to income based on the corporate bond yield rate. The Group expects that these amendments will have no impact on the Group's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The IASB and the US FASB issued amendments that are intended to improve and align the presentation of items of other comprehensive income (OCI) in financial statements prepared in accordance with IFRS and US GAAP. The amendments to IAS 1 *Presentation of Financial Statements* require companies preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the income statement. Currently the Group evaluates possible effect of these amendments on its financial position and performance.

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions

Acquisition of Citer Invest B.V.

In May 2011 the Group acquired 50% + 1 shares of Citer Invest B.V. for the amount of USD 45.6 million (RUR 1,271 million) for the development of new Project "Multi-function complex with transport terminal as part of Moscow International Business Center "Moscow-City".

Citer Invest B.V. `s fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Property, plant and equipment	10
Investment property under construction	5,038
Trade and other receivables	1
Cash and short-term deposits	36
Other current financial assets	287
Other current non-financial assets	198
	5,570
Interest bearing loans and borrowings	(1,789)
Deferred tax liability	(646)
Trade and other payables	(377)
Other current non-financial liabilities	(168)
	(2,980)
Total identifiable net assets at fair value	**2,590**
Non-controlling interest measured at fair value	1,282
Total consideration	1,400
Goodwill arising on acquisition (Note 19)	**92**
Total consideration consists of:	**1,400**
- cash consideration paid	1,271
- capital conrtibution	129
Cash paid for the acquisition	(1,271)
Cash acquired with the subsidiary	36
Net cash outflow on acquisition	**(1,235)**

As at 30 June 2011 capital contribution to be contributed by cash remained unpaid. The goodwill of RUR 92 million comprises the fair value of expected synergies arising from the acquisition.

From the date of acquisition, Citer Invest B.V. has contributed RUR nil million and RUR 17 million to Group's revenue and Group's loss before tax for the six months ended 30 June 2011, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR nil million and RUR 44 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions (continued)

Acquisition of GOK "Pekin"

In March 2011 the Group acquired 100% of the shares of JSC "Hotel "Pekin" for the amount of RUR 1,706 million for the development of the Project "Hotel and Office complex "Pekin".

GOK "Pekin"`s fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Property, plant and equipment	2,091
Deferred tax assets	16
Trade and other receivables	9
Cash and short-term deposits	25
Other current non-financial assets	3
	2,144
Deferred tax liability	(411)
Trade and other payables	(27)
	(438)
Total identifiable net assets at fair value	**1,706**
Total consideration	**1,706**
Cash paid for an acquisition	(1,706)
Cash acquired with the subsidiary	25
Net cash outflow on acquisition	**(1,681)**

From the date of acquisition, GOK "Pekin" has contributed RUR 120 million and RUR 14 million to Group's revenue and Group's loss before tax for the six months ended 30 June 2011, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR 48 million and RUR 2 million, respectively.

Acquisition of Gandiva Enterprises Limited

In June 2011 the Group acquired 50% of the shares of Gandiva Enterprises Limited for cash consideration of RUR 66 million. At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 64 million (Note 11).

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions (continued)

Acquisition of Gandiva Enterprises Limited (continued)

Gandiva Enterprises Limited's fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Investment property under construction	387
Deferred tax assets	14
Other current non-financial assets	139
	540
Other non-current financial liabilities	(76)
Deferred tax liability	(102)
Current interest bearing loans and borrowings	(101)
	(279)
Total identifiable net assets at fair value	**261**
Fair value of previously acquired interest (50%)	131
Total consideration consists of:	**66**
- cash consideration paid	66
Excess of the net fair value of the acquiree's identifiable assets and liabilities over the consideration	**(65)**
Cash paid for an acquisition	(66)
Cash acquired with the subsidiary	–
Net cash outflow on acquisition	**(66)**

Excess of the net fair value of the acquiree's identifiable assets and liabilities over the consideration in the amount of RUR 65 million has been recognised in other operating income on the acquisition date.

From the date of acquisition, Gandiva Enterprises Limited has contributed RUR nil million and RUR nil million to Group's revenue and Group's loss before tax for the six months ended 30 June 2011, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR nil million and RUR 1 million, respectively.

Acquisition of Astanda

In 2007 the Group had 100% shares in Kamelia project (the construction of a hotel "Kamelia" in Sochi) and sold 50% shares to Saraya Russia, a third party, for the cash consideration of USD 40 million. In 2010 the Group considered that it was not able to comply with the conditions of the contract and in accordance with the contract terms it bought those 50% shares back for the consideration equal to the amount received from Saraya Russia plus cost capitalized at the project in the total amount of USD 42.4 million (RUR 1,302 million). At the moment of this acquisition the fair value of the consideration paid significantly exceeded the fair value of the business acquired. As a result of this transaction the loss has been recognized in the amount of RUR 952 million. At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 150 million (Note 11).

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions (continued)

Acquisition of Astanda (continued)

Astanda`s fair value of net assets at the date of purchase as follows:

	Fair value recognised on acquisition
Property, plant and equipment	650
VAT reimbursable	28
Deferred tax assets	34
Cash and short-term deposits	3
Trade and other receivables	28
	743
Deferred tax liability	(31)
Trade and other payables	(12)
	(43)
Total identifiable net assets at fair value	**700**
Fair value of previously acquired interest (50%)	350
Purchase consideration transferred	1,302
Loss on acquisition	**952**
Cash paid for an acquisition	(1,302)
Cash acquired with the subsidiary	3
Net cash outflow on acquisition	**(1,299)**

From the date of acquisition, Astanda has contributed RUR nil million and RUR 7 million to Group's revenue and Group's loss before tax for the six months ended 30 June 2010, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR nil million and RUR 16 million for the six months ended 30 June 2010, respectively.

7. Revenue from sales of inventory property

In the first half of 2011 the Group recognized revenue and cost relating to the Nakhimovski-Dnepropetrovski project in the amount of RUR 57 million and RUR 35 million, respectively.

8. Other sales

Other sales for the six-month periods ended 30 June 2011 and 30 June 2010 represent revenue from rooms charges and other hotel services from Pekin in the amount of RUR 120 million and RUR nil million, respectively, general constructor service fees in the amount of RUR 26 million and RUR 25 million, respectively, and other revenues.

(Amounts in millions of Russian Rubles, unless otherwise stated)

9. Administration expenses

	the six-month period ended 30 June (unaudited)	
	2011	**2010**
Staff cost	288	152
Depreciation and amortization	41	21
Consulting and other professional services	35	42
Repairs, maintenance and utilities	12	17
Advertising costs	11	1
Communication services	4	2
Banking services	4	3
Security expenses	2	2
Rent of premises and land	1	4
Other	17	30
	415	**274**

10. Other operating income

	the six-month period ended 30 June (unaudited)	
	2011	**2010**
Recover of receivables written off in prior periods	129	238
Excess of the net fair value of the acquiree's identifiable assets and liabilities over the consideration (Note 6)	65	–
Reversal of tax provision	20	–
Reversal of legal provision	56	–
Other	34	68
	304	**306**

In the six-month period ended 30 June 2010 the Group reversed unrecoverable receivables written off in prior periods in the amount of RUR 129 million, reversed legal and tax provisions in the amount of RUR 20 million and RUR 56 million respectively.

11. Other operating expenses

	the six-month period ended 30 June (unaudited)	
	2011	**2010**
Loss on acquisition (Note 6)	–	952
Loss from remeasurement of investment in associate to fair value (Note 6)	64	150
Development rights impairment (Note 19)	–	282
Taxes other than income tax	77	37
Receivables write off	241	38
Other	48	97
	430	**1,556**

(Amounts in millions of Russian Rubles, unless otherwise stated)

11. Other operating expenses (continued)

In the six-month period ended 30 June 2011 the Group wrote off receivables due from Telekom Development, a former associate of the Group, disposed in 2011, in the total amount of RUR 241 million.

In the six-month period ended 30 June 2010 the Group wrote off receivables due from a number of related parties in the total amount of RUR 38 million.

Loss from remesurement of the investment in associate to fair value in the amount of RUR 150 million and RUR 64 million were recognized upon acquisition of Astanda and Gandiva Enterprises Limited, respectively (Note 6).

12. Finance income

	the six-month period ended 30 June (unaudited)	
	2011	**2010**
Interest on loans issued	173	86
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies (Note 29)	12	24
Unwinding of discount of long-term VAT	57	52
Reverse of bank commission (VTB)	–	75
Interest on bank deposits	5	–
	247	**237**

The Group recognised the unwinding of the discount related to long term input VAT as finance income in the six-month periods ended 30 June 2011 and 2010 in the total amount of RUR 57 million and of RUR 52 million, respectively.

In the six-month period ended 30 June 2010 the VTB returned to the Group commission accrued and paid by the Group in 2009 in the amount of RUR 75 million. The return was caused by amendments to the loan agreements.

13. Finance expenses

	the six-month period ended 30 June (unaudited)	
	2011	**2010**
Interest on bank loans	2,734	2,126
Less: amounts capitalised	(869)	(302)
Total	**1,865**	**1,824**

In the six-months period ended 30 June 2011 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 192 million, RUR 627 million and RUR 50 million, respectively.

In the six-months period ended 30 June 2010 the Group capitalized interest on bank loans in investment property under construction and inventory property in the amount of RUR 64 million, RUR 238 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

14. Income tax

The major components of income tax for the six-month periods ended 30 June 2011 and 2010 are:

	2011 (unaudited)	2010 (unaudited)
Interim consolidated statement of comprehensive income		
Current income tax	(4)	–
Deferred income tax relating to origination and reversal of temporary differences	7	615
Income tax reported in the interim consolidated statement of comprehensive income	**3**	**615**

A reconciliation between income tax and the product of accounting loss multiplied by statutory tax rate for the six-month periods ended 30 June 2011 and 2010 is as follows:

	2011 (unaudited)	2010 (unaudited)
Loss before tax	**(1,078)**	**(4,686)**
Income tax benefit computed on loss before taxes at statutory rate (20%)	216	937
Non-deductible expenses	(209)	(223)
Effect of tax rates in other jurisdictions	(6)	(104)
Effect of net loss attributable to non-controlling participants in LLCs	2	5
Total income tax reported in the interim consolidated statement of comprehensive income	**3**	**615**

	Interim consolidated statement of financial position		Interim consolidated statement of comprehensive income
	30 June 2011 (unaudited)	1 January 2011	the six-month period ended 30 June 2011 (unaudited)
Deferred tax liability			
Revaluations of investment property to fair value	(4,302)	(3,191)	18
Development rights valuation	0	(2)	2
Timing of revenue recognition	(248)	(244)	(4)
Timing of capitalized interest recognised	(647)	(556)	(91)
Timing of costs recognised	(194)	(165)	(29)
Other liability	(67)	(92)	25
	(5,458)	**(4,250)**	**(79)**
Deferred income tax assets			
Valuations of assets other than investment property	181	182	(0)
Revaluations of investment property to fair value	1,623	1,619	4
Depreciation	3	48	(45)
Losses available for offset against future taxable income	1,109	1,018	91
Other assets valuation	73	37	36
	2,989	**2,904**	**86**
Deferred tax benefit			**7**
Deferred tax liability, net			
Reflected in the interim consolidated statement of financial position as follows:			
Deferred tax assets	1,783	1,680	
Deferred tax liability	(4,251)	(3,026)	
Deferred tax (liability)/assets, net	**(2,468)**	**(1,346)**	

(Amounts in millions of Russian Rubles, unless otherwise stated)

14. Income tax (continued)

	Interim consolidated statement of financial position		Interim consolidated statement of comprehensive income
	30 June 2010 (unaudited)	**1 January 2010**	**the six-month period ended 30 June 2010 (unaudited)**
Deferred tax liability			
Revaluations of investment property to fair value	(3,185)	(3,193)	8
Development rights valuation	(86)	(125)	38
Timing of revenue recognition	(144)	(163)	18
Timing of capitalized interest recognised	(672)	(538)	(134)
Timing of costs recognised	(122)	(98)	(24)
Other liability	(159)	(143)	(13)
	(4,368)	**(4,260)**	**(107)**
Deferred income tax assets			
Valuations of assets other than investment property	244	361	(117)
Revaluations of investment property to fair value	1,981	1,440	540
Depreciation	40	31	9
Losses available for offset against future taxable income	907	675	232
Other assets valuation	161	101	58
	3,333	**2,608**	**722**
Deferred tax benefit			**615**
Deferred tax liability, net			
Reflected in the interim consolidated statement of financial position as follows:			
Deferred tax assets	2,205	1,982	
Deferred tax liability	(3,239)	(3,634)	
Deferred tax (liability)/assets, net	**(1,034)**	**(1,652)**	

Reconciliation of deferred tax liability, net for the six-month periods ended 30 June 2011 and 2010 is follows:

	2011 (unaudited)	2010 (unaudited)
At 1 January	**(1,346)**	**(1,652)**
Income tax recognized in the interim consolidated statement of comprehensive income	7	615
Acquisition of subsidiary (Note 6)	(1,129)	3
At 30 June (unaudited)	**(2,468)**	**(1,034)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

15. Completed investment property

	2011 (unaudited)	2010 (unaudited)
At 1 January	**5,232**	**6,860**
Capital expenditure on owned property	6	14
Acquisition of subsidiary	387	–
Transfer from Investment property under construction	128	–
Transfer to property, plant and equipment (Note 18)	–	(158)
Fair value adjustment	37	(948)
At 30 June (unaudited)	**5,790**	**5,768**

The fair value of completed investment property has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgment and not only relied on historical transactional comparables.

The valuations were performed by Group's internal valuer with a recognized and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining the fair value of buildings, held primarily to earn rental income, totaling RUR 2,851 million, RUR 2,787 million and RUR 3,372 million as of 30 June 2011, 31 December 2010 and 1 January 2010, respectively, the income method was used.

The significant assumptions made relating to valuations of the major projects of the Group with the aggregate carrying amounts as at 30 June 2011, 31 December 2010 and 1 January 2010 of RUR 2,838 million, RUR 2,787 million and RUR 3,372 million, respectively, are set out below:

Danilovsky Fort

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Contracted rental rate, kRUR/sq. m/per year	–	–	–
Average annual rental rate indexation	2.6%	2.8%	6.1%
Market rental rate			
office, kRUR/sq. m/year	10.7	10.9	8.8
retail, kRUR/sq. m/year	10.5	9.9	10.5
Terminal capitalization rate	9.5%	9.5%	7.8%
Discount rate	12.0%	12.0%	13.4%

8 March

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Contracted rental rate, kRUR/sq. m/per year	8.0	9.6	9.3
Average annual rental rate indexation	5.8%	9.9%	6.1%
Market rental rate			
office, kRUR/sq. m/year	8.0	8.0	7.6
retail, kRUR/sq. m/year	–	–	–
Terminal capitalization rate	13.0%	13.0%	7.0%
Discount rate	12.6%	12.6%	12.7%

(Amounts in millions of Russian Rubles, unless otherwise stated)

15. Completed investment property (continued)

In determining the fair value of land and buildings, held to benefit from capital appreciation over the long-term, totaling RUR 1,583 million, RUR 1,108 million and RUR 1,956 million as of 30 June 2011, 31 December 2010 and 1 January 2010, respectively, the income method was used.

The significant assumptions made relating to valuations of major projects of the Group with the aggregate carrying amounts as at 30 June 2011, 31 December 2010 and 1 January 2010 of RUR 1,443 million, RUR 1,059 million and RUR 445 million, respectively, are set out below:

Nastasyinsky	**30 June 2011 (unaudited)**	**31 December 2010**	**1 January 2010**
Average annual rental rate indexation	4.5%	5.8%	6.1%
Market selling prices, kRUR/sq. m	407	390	–
Discount rate	25%	28%	18%
Construction costs, kRUR/sq. m	113	115	81.6

Bolshaya Tatarskaya	**30 June 2011 (unaudited)**	**31 December 2010**	**1 January 2010***
Average annual rental rate indexation	3.0%	3.0%	–
Market selling prices, kRUR/sq. m	393	390	–
Discount rate	23%	23%	–
Construction costs, kRUR/sq. m	117	117	–

Vsevolzhski	**30 June 2011** (unaudited)**
Average annual rental rate indexation	16.0%
Market selling prices, kRUR/sq. m	481
Discount rate	23%
Construction costs, kRUR/sq. m	185

* *– As at 1 January 2010 for valuation of Bolshaya Tatarskaya the comparative method was used*
** *– The project has been acquired in 2011*

For other land and buildings, held to benefit from capital appreciation over the long-term the comparative method was used.

In determining the fair value of land, held to benefit from capital appreciation over the long–term and for currently undetermined use, totaling RUR 1,357 million, RUR 1,337 million and RUR 1,532 million as of 30 June 2011, 31 December 2010 and 1 January 2010, respectively, the comparative method was used.

(Amounts in millions of Russian Rubles, unless otherwise stated)

16. Investment property under construction

	2011 (unaudited)	2010 (unaudited)
At 1 January	**10,684**	**13,355**
Capital expenditure	53	37
Interest capitalised	192	64
Acquisition of subsidiary (Note 6)	5,038	–
Transfer to Completed investment property	(128)	–
Transfer from inventory property (Note 20)	–	1,863
Transfer to inventory property (Note 20)	–	(4,849)
Fair value adjustment	318	305
At 30 June (unaudited)	**16,157**	**10,775**

The fair value of investment property under construction has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The valuations were performed by Group's internal valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining the fair value of investment property under construction the income method was used.

The significant assumptions made relating to valuations of major projects of the Group with the aggregate carrying amounts as at 30 June 2011, 31 December 2010 and 1 January 2010 of RUR 15,541 million, RUR 9,880 million and RUR 8,322 million, respectively, are set out below:

Detsky Mir Lubyanka

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Average annual rental rate indexation	3.8%	3.1%	6.5%
Market rental rate, kRUR/sq. m/year	44.6	47.1	43.1
Terminal capitalization rate	9.0%	9.0%	13.8%
Discount rate	20%	17.4%	24.2%
Construction costs, kRUR/sq. m	69.3	69.3	80.6

Skylight

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Average annual rental rate indexation	2.8%	2.0%	6.1%
Market rental rate			
office, kRUR/sq. m/year	19.3	21.1	17.9
retail, kRUR/sq. m/year	19.2	20.4	–
Terminal capitalization rate	9.0%	9.0%	9.2%
Discount rate	16.3%	16.3%	20.2%
Construction costs, kRUR/sq. m	77.2	77.2	88.7

(Amounts in millions of Russian Rubles, unless otherwise stated)

16. Investment property under construction (continued)

	Povarskaya*	Pekin*	Citer**
Other projects	**1 January 2010**	**1 January 2010**	**30 June 2011 (unaudited)**
Average annual rental rate indexation	6.1%	6.1%	3.5%
Market rental rate (selling price), kRUR/sq. m/year (kRUR/sq. m)			
office,	22.7	157	20.5
retail	287	189	44.1
Terminal capitalization rate	10.1%	–	10.0%
Discount rate	23.0%	38.0%	20.4%
Construction costs, kRUR/sq. m	60.5	55.5	42.8

* – *During 2010 Povarskaya and Pekin projects were transferred to inventory property (Note 20).*
** – *The project has been acquired in 2011*

For other major projects the comparative method was used.

17. Investments in associates and joint ventures

Investments in associates and joint ventures consisted of the following:

	Project	Voting and effective %	30 June 2011 (unaudited)	31 December 2010	1 January 2010
JSC Ekvivalent	Nevskaya Ratusha	50%	2,072	2,134	–
Joint venture with Apsys	Leto	50%	1,439	1,355	1,081
Joint venture with Saraya	Kamelia	50%	–	–	500
Hals-Technopark	Povarskaya	50%	881	881	–
Telekom-Development	Telecom-Development	50%	–	195	952
Total			**4,392**	**4,565**	**2,533**

	2011 (unaudited)	2010 (unaudited)
At 1 January	**4,565**	**2,533**
Share of gain/(loss) of associates and joint ventures, net of tax, in the interim consolidated statement of comprehensive income	22	(446)
Remesurement of stake in Joint venture with Saraya	–	(150)
Disposal of Joint venture with Saraya (Note 6)	–	(350)
Acquisition of JSC Ekvivalent	–	2,344
Disposal of Telekom-Development (Note 6)	(195)	–
At 30 June (unaudited)	**4,392**	**3,931**

In April 2010, the Group acquired 50% of the voting shares of JSC Ekvivalent, specializing in the construction of a multifunctional complex “Nevskaya Ratusha” in S.Peterburg, for RUR 2,344 million.

(Amounts in millions of Russian Rubles, unless otherwise stated)

17. Investments in associates and joint ventures (continued)

As a result of the acquisition of remaining 50% of Astanda (joint venture with Saraya), the Group remeasured the previously held investment in this joint venture to its fair value and recognised loss in the amount of RUR 150 million (Note 6).

As a result of the acquisition of remaining 50% of two projects held by Telekom Development through acquisition of Gandiva Enterprises Limited, the Group remeasured the previously held investment in this joint venture to its fair value and recognised loss in the amount of RUR 64 million (Note 6).

In the six-month period ended 30 June 2011 the Group recognized share of profit of joint venture with Apsys in the amount of RUR 84 million and share of loss of JSC Ekvivalent in the amount of RUR 62 million.

In the six-month period ended 30 June 2010 the Group recognized share of loss Telekom-Development, joint venture with Apsys and JSC Ekvivalent in the amount of RUR 165 million, RUR 163 million and RUR 118 million, respectively.

The summarized information on assets, liabilities, and results of operations of the investees, is as follows:

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Assets	24,351	24,906	10,443
Liabilities	(15,567)	(15,776)	(5,377)
Net assets	**8,784**	**9,130**	**5,066**

	30 June 2011 (unaudited)	30 June 2010 (unaudited)
Gain/(loss) for the six-month period ended	**44**	**(892)**

The Group has not incurred any contingent liabilities in relation to its interest in the joint venture, nor does the joint venture itself have any contingent liabilities for which the Group is contingently liable.

The Group has not entered into any capital commitments in relation to its interest in the joint venture.

18. Property, plant and equipment

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2011	**141**	**88**	**767**	**996**
Additions		2	80	**82**
Acquisitions of a subsidiary (Note 6)	2,091	10	–	**2,101**
Disposals		(5)	–	**(5)**
30 June 2011 (unaudited)	**2,233**	**95**	**847**	**3,174**
Depreciation and impairment				
1 January 2011	**(3)**	**(32)**	–	**(35)**
Depreciation charge for the year	(26)	(14)	–	**(40)**
Disposals		4	–	**4**
30 June 2011 (unaudited)	**(29)**	**(42)**	–	**(71)**
Net book value				
30 June 2011 (unaudited)	**2,204**	**69**	**847**	**3,103**
1 January 2011	**138**	**56**	**767**	**961**

(Amounts in millions of Russian Rubles, unless otherwise stated)

18. Property, plant and equipment (continued)

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2010	**2**	**79**	**–**	**81**
Acquisitions of a subsidiary (Note 6)	–	–	650	**650**
Transfer from investment property (Note 15)	138	–	–	**138**
30 June 2010 (unaudited)	**140**	**79**	**650**	**869**
Depreciation and impairment				
1 January 2010	**(1)**	**(5)**	**–**	**(6)**
Depreciation charge for the year	(3)	(13)	–	**(16)**
30 June 2010 (unaudited)	**(4)**	**(18)**	**–**	**(22)**
Net book value				
30 June 2010 (unaudited)	**136**	**61**	**650**	**847**
1 January 2010	**1**	**74**	**–**	**75**

The amount of borrowing costs capitalised during the six-month periods ended 30 June 2011 and 2010 was RUR 50 million and RUR nil million, respectively.

In the six-month period ended 30 June 2011 the Group acquired GOK “Pekin”, which owns Project “Hotel and Office complex “Pekin” (Note 6).

In the six-month period ended 30 June 2010 the Group acquired Astanda, which owns “Kamelia Hotel” under construction (Note 6).

During the six-month period ended 30 June 2010, the Group has transferred the building of Bolshaya Tatarskaya 35/4 from investment property to property plant and equipment due to the use for the most part of the buildings by the Group for administrative purposes.

19. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Development rights	Other	Total
Cost				
1 January 2011	**–**	**–**	**41**	**41**
Goodwill on acquisition of subsidiary (Note 6)	92	–	–	92
30 June 2011 (unaudited)	**92**	**–**	**41**	**133**
Depreciation and impairment				
1 January 2011	**–**	**–**	**(12)**	**(12)**
Amortisation	–	–	(5)	(5)
30 June 2011 (unaudited)	**–**	**–**	**(17)**	**(17)**
Net book value				
30 June 2011 (unaudited)	**92**	**–**	**24**	**116**
1 January 2011	**–**	**–**	**29**	**29**

(Amounts in millions of Russian Rubles, unless otherwise stated)

19. Intangible assets (continued)

	Goodwill	Development rights	Other	Total
Cost				
1 January 2010	**–**	**675**	**18**	**693**
Additions	–	–	16	16
30 June 2010 (unaudited)	**–**	**675**	**34**	**709**
Depreciation and impairment				
1 January 2010	**–**	**(17)**	**–**	**(17)**
Amortization	–	(103)	(5)	(108)
Impairment	–	(282)	–	(282)
30 June 2010 (unaudited)	–	**(402)**	**(5)**	**(407)**
Net book value				
30 June 2010 (unaudited)	**–**	**273**	**29**	**302**
1 January 2010	**–**	**658**	**18**	**676**

In the six-month period ended 30 June 2011 the Group recognized goodwill in the amount of RUR 92 million which arose on acquisition of Citer Invest B.V.

In the six-month period ended 30 June 2010 the Group recognized impairment of development rights in the amount of RUR 282 million relating to the part of Kuntsevo project which will not be completed.

20. Inventory property

	2011 (unaudited)	2010 (unaudited)
At 1 January	**16,195**	**13,894**
Construction costs incurred	1,250	934
Interest capitalised	627	238
Transfer from investment property (Note 15, 16)	–	4,849
Transfer to investment property under construction (Note 16)	–	(1,863)
Property sold (Note 7)	(35)	–
Write-down of inventory to net realizable value	(48)	(334)
At 30 June (unaudited)	**17,989**	**17,718**

In 2010 the Group transferred the tower “B” project Skylight in the amount of RUR 1,863 million from inventory property to investment property under construction as a result of concept change and intention to redevelop the project for the future earning of rental income and capital appreciation. Initial concept of developing the properties for sale in the ordinary course of business was reconsidered to generate higher economic benefits from the project.

During the six month period ended 30 June 2010 “Povarskaya” project in the amount of RUR 1,698 million held by Hals-Technopark JSC, a subsidiary of the Group was transferred from investment property under construction to inventory property as the Group’s management changed the concept of this project to residential development with a view to sale.

(Amounts in millions of Russian Rubles, unless otherwise stated)

20. Inventory property (continued)

During the six month period ended 30 June 2010 “Gorki-8” project in the amount of RUR 3,151 million was transferred from investment property under construction to inventory property as the Group’s management changed the concept of this project to residential developments with a view to sale.

As of 30 June 2011 and 2010 the Group tested inventory property for recoverability. As a result of the test, in the six-month periods ended 30 June 2011 and 2010 the Group recognized loss on inventory property write off to net realizable value in the amount of RUR 48 million and RUR 334 million, respectively .

In the six-month periods ended 30 June 2011 and 2010 the Group capitalized staff costs in inventory properly (project “Gorki-8”) in the amount of RUR 2.4 million and RUR 6.2 million, respectively.

21. Trade and other receivables

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Trade receivables			
Trade receivable from third parties	205	189	49
Trade receivable from related parties	17	3	20
	222	**192**	**69**
Other receivables			
Other receivable from third parties	494	345	549
Other receivable from related parties	197	97	176
	691	**442**	**725**
	913	**634**	**794**

Trade and other receivables are neither past due nor impaired. The Group holds no collateral in respect of these receivables.

(Amounts in millions of Russian Rubles, unless otherwise stated)

22. Loans and notes receivable

	Interest rate %	Maturity	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Current - third parties:					
City-Hals	18.00%	2010	–	–	47
Other Third Parties	Various	2010	–	–	8
Other Third Parties	Various	2011	5	3	–
			5	**3**	**55**
Current - related parties:					
Amiral B.V.	12.00%	2010	–	–	46
Amiral B.V.	14.00%	2010	–	–	82
Hals-Invest-Development	11.75%	2010	–	–	8
Hals-Service	The rate of the Central Bank (RF) + 1%	2010	–	–	6
Kamelia	The rate of the Central Bank (RF) + 1%	2010		–	8
Daev Project	0.00%	2010	–	–	54
Zorge Project	14.00%	2010	–	–	5
Zorge Project	20.60%	2010	–	–	20
Zorge Project	21.00%	2010	–	–	8
Milutinsky Project	20.60%	2010	–	–	5
Enform	The rate of the Central Bank (RF) + 1%	2010	–	–	64
SistemApsys Financing S.A.R.L.	12.00%	2011	722	811	153
SistemApsys S.A.R.L	12%	2010	–	–	27
Hals-Technopark	10.50%	2011	104	66	–
Other Related Parties	Various	2010	4	–	117
			830	**877**	**603**
			835	**880**	**658**
Non-current receivable from related parties					
Hals-Invest-Development	17%	2017	–	127	127
SistemApsys S.a.r.l	6.50%	2011		–	1,225
Hals-Invest-Development	17.00%	2017	150	–	–
Hals-Invest-Development	10.50%	2017	29	11	–
Hals-Invest-Development	10.75%	2017	282	268	–
Hals-Invest-Development	11.50%	2017	11	672	571
Hals-Invest-Development	11.75%	2017	10	9	8
Hals-Invest-Development	18.00%	2017	1,688	1,215	–
Hals-Invest-Development	11.79%	2017	117	–	–
Hals-Invest-Development	12.00%	2017	666	–	–
Other Related Parties	Various	2011	–	–	3
Other Related Parties	Various	2012	–	–	1
			2,953	**2,302**	**1,935**
			3,788	**3,182**	**2,593**

Loans and notes receivable are neither past due nor impaired.

(Amounts in millions of Russian Rubles, unless otherwise stated)

23. Cash and short term deposits

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Cash at bank and on hand	852	49	126
Short-term deposits	1,031	644	32
	1,882	**693**	**158**

The weighted average interest rate on demand deposits as of 30 June 2011, 31 December and 1 January 2010 was 2%.

24. Other non-financial assets

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Other non-current			
Advances issued for construction of investment property	4,079	2,500	2,024
Advances issued for construction of inventory property	4,590	1,633	307
	8,669	**4,133**	**2,331**
Other current assets			
Advance payments for taxes	90	306	327
Advances issued for construction of inventory property	195	180	236
Other current non-financial assets	182	50	165
	467	**536**	**728**

25. Equity

At 1 January 2010 the Company had 11,217,094 common shares issued and 11,205,877 shares outstanding. Nominal value of one share is equal to RUR 50.

In January 2010 the Group purchased additional shares from management for the amount of RUR 113 million, resulting in an increase in treasury stock of 123,388 shares.

In March-April 2010 the Group sold treasury stock of 129,045 shares for the amount of RUR 133 million, RUR 118 million of which were paid in cash and the remainder was unpaid as of 30 June 2011.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the six-month periods ended 30 June 2011 and 2010 is as follows:

	Total shares authorised and issued	Treasury shares	Total shares authorised, issued and outstanding
	Thousands	Thousands	Thousands
As of 1 January 2011	**11,217**	**(6)**	**11,212**
As of 30 June 2011 (unaudited)	**11,217**	**(6)**	**11,212**
As of 1 January 2010	**11,217**	**(11)**	**11,206**
Acquisition of treasury shares	–	(123)	(123)
Sale of treasury shares	–	129	129
As of 30 June 2010 (unaudited)	**11,217**	**(5)**	**11,212**

(Amounts in millions of Russian Rubles, unless otherwise stated)

26. Interest bearing loans and borrowings

	Interest rate %	Maturity	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Current interest-bearing loans and borrowings from related parties					
VTB	MOSPRIME +5.12%	2010	–	–	4,594
VTB	15.0%	2010	–	–	817
VTB	9.5%	2012	2,074	–	–
VTB	10.15%	2010	–	–	758
VTB	The rate of the Central Bank (RF) + 0.25%	2011	–	500	–
Other Related Parties	Various		–	–	153
Other Related Parties	Various		–	3	–
			2,074	**503**	**6,322**
Current interest-bearing loans and borrowings from third parties					
Raiffeisenbank	MOSPRIME + 5.5%	2010	–	–	634
Merrill Lynch International	LIBOR + 5.35%	2011	–	2,139	–
GazPromBank	12.5%	2011	–	792	–
Bonds 1	15.0%	2010	–	–	13
Bonds 2	12.0%	2010	–	–	120
Other Third Parties	Various		–	–	351
Other Third Parties	Various		15	16	–
			15	**2,947**	**1,118**
Total current interest-bearing loans and borrowings			**2,089**	**3,450**	**7,440**
Non-current interest-bearing loans and borrowings from related parties					
VTB	8.0%	2017	2,232	–	–
VTB	12%	2016	4,309	–	–
VTB	9.5%	2012	31,038	32,048	22,081
VTB	9.5%	2013	19,860	13,295	3,359
VTB	9.5%	2015	2,612	2,608	–
VTB	9.5%	2019	868	656	–
VTB	The rate of the Central Bank (RF) + 0.25%	2014	2,770	1,337	–
VTB	The rate of the Central Bank (RF) + 0.25%	2015	3,873	3,124	–
Other Related Parties	Various	2015		–	34
			67,562	**53,068**	**25,474**
Non-current interest-bearing loans and borrowings from third parties					
Emmomax International N.V	8.15%	2018	1,763	–	–
Vnesheconombank	9.0%	2014	2,073	1,997	1,911
Merrill Lynch Internationa	LIBOR + 5.35%	2011	–	–	2,124
GazPromBankl	12,5%	2011	–	–	786
Bonds 1	15.0%	2014	–	–	3,000
Bonds 2	12.0%	2014	–	–	2,000
Other Third Parties	Various	Various	246	248	11
			4,082	**2,245**	**9,832**
Total non-current interest-bearing loans and borrowings			**71,644**	**55,313**	**35,306**
Total interest-bearing loans and borrowings			**73,733**	**58,763**	**42,746**

(Amounts in millions of Russian Rubles, unless otherwise stated)

26. Interest bearing loans and borrowings (continued)

The schedule of repayment of debt as at 30 June 2011 is as follows:

Year ended 30 June 2011	
2011	16
2012	33,112
2013	19,860
2014	4,842
2015	6,733
2016	4,309
2017	2,232
2018	1,763
2019	866
Total	**73,733**

VTB

In January 2011 the Group modified the repayment terms of the credit agreement for long-term financing of the Gorki-8 (land plot) project with the limit of USD 15,600 (RUR 475 million). The repayment date was reagreed from April 2011 to July 2015. As a result no substantial modification of the terms of an existing liability occurred.

In January 2011 the Group signed new loan agreement with VTB for the credit line in amount of RUR 12,674 million. The loan is to be repaid in January 2016. As of 30 June 2011 the loan facility was utilized in the amount of RUR 4,131million.

In April 2011 the Company signed the credit agreement to finance its subsidiaries. Under these credit facilities VTB will provide the financing of up to USD 84 million (RUR 2,371 million). As of 30 June 2011 the loan facility was utilized in the amount of USD 78.9 million (RUR 2,217 million).

In April 2011 the Group signed the credit agreement with the limit of USD 119 million (RUR 3,272) and the interest rate of 9% for the purpose of financing the commercial real estate project multifunctional terminal complex “Moscow-City”. The loan is to be repaid in November 2015. As of 30 June 2011 the loan facility was not utilized.

In January 2011 the Group agreed with VTB to increase the limit on the corporate credit facility up to RUR 23,508 million which is to be used for current activity and project financing as well as refinancing. As of 30 June 2011 the loan facility was utilized in the amount of RUR 18,300 million.

In the year of 2010 the interest rates of the credit lines opened by VTB in 2007-2009 were changed from 15.00%, 10.15% and MOSPRIME+5.12 % to 9.5%. The credit terms of the loans which were to be repaid in 2010 were modified and prolonged to 2012-2013 years.

In April 2010 the Group signed the credit agreement in the amount of RUR 475.4 million to finance the Group`s company Gorki-8 Ltd operating activities. The interest rate on this credit facility is the Central Bank rate plus 0.25% with the repayment in April 2011. As of 31 December 2010 the loan facility was fully utilized.

In April 2010 the Group signed the credit agreement for the purpose of purchase of 50% share in CJSC Ekvivalent in the amount of USD 80 million (RUR 2,344 million) with the 9.5 % interest rate. The loan is to be repaid in April 2015. As of 31 December 2010 the loan facility was fully utilized.

26. Interest bearing loans and borrowings (continued)

In May 2010 the Group signed the credit agreement with the limit of RUR 573.8 million and the interest rate of 9.5% for the purpose of financing the commercial real estate project DM Lubyanka. The loan is to be repaid in January 2019. In October 2010 the Group agreed with VTB to increase the limit of this loan facility up to RUR 5,780 million. As of 30 June 2011 and 31 December 2010 the loan facility was utilized in the amount of RUR 819.1 million and RUR 641.7 million, respectively.

In June 2010 the Group signed the credit agreement with the limit of RUR 2,300 million and the interest rate as at the Central Bank rate plus 0.25% for the purpose of financing the residential real estate project Elninskaya, 28. The loan is to be repaid in June 2014. As of 31 December 2010 the loan facility was utilized in the amount of RUR 220.7 million. As of 30 June 2011 the loan was repaid.

In July 2010 the Group signed the credit agreement with the limit of RUR 3,183.3 million and the interest rate as at the Central Bank rate plus 0.25% for the purpose of financing the commercial real estate project Gorki-8 (land plot). The loan is to be repaid in July 2015. As of 30 June 2011 and 31 December 2010 the loan facility was utilized in the amount of RUR 3,130.4 million and RUR 3,027.5 million, respectively.

In September 2010 the Group signed the credit agreement with the limit of RUR 5,374 million and the interest rate as at the Central Bank rate plus 0.25% for the purpose of financing the commercial real estate project Skylight. The loan is to be repaid in September 2014. As of 30 June 2011 and 31 December 2010 the loan facility was utilized in the amount of RUR 2,668.8 million and RUR 1,095.1 million, respectively.

During 2010 the limit on the credit facility for the purpose of financing the current activity as well as refinancing purposes was increased up to RUR 17,461 million. As of 31 December 2010 the loan facility was utilized in the amount of RUR 12,409.7 million.

Ruble Bond Public Offering Series 1 and 2

In April 2010, the Russian bonds series 1 and 2 were fully redeemed in the amount of RUR 5,000 million. The redemption was financed by a loan obtained from VTB in 2009 for which credit facilities were extended in April.

Merrill Lynch International

As of 31 December 2010, the Group had RUR 2,134 million outstanding balance under this credit facility. The loan was fully repaid in 2011.

Vnesheconombank

In July 2010 the Group converted the currency of the loan agreement with Vneshekonombank from USD to RUR. The interest rate was not changed. As of 30 June 2011 and 31 December 2010 the Group had RUR 1,701 million and RUR 1,701 million, respectively, outstanding under this credit facility.

GazPromBank

As of 31 December 2010 the Group had RUR 792 million outstanding under this credit facility. The loan was fully repaid in 2011.

Raiffeisenbank

The loan outstanding as of 1 January 2010 was repaid in 2010.

(Amounts in millions of Russian Rubles, unless otherwise stated)

27. Trade and other payables

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Trade payables			
Trade payable to third parties	998	1,062	1,293
Trade payable to related parties	6	1	21
	1,004	**1,063**	**1,314**
Other payables			
Other payable to third parties	207	130	601
Other payable to related parties	–	–	–
	207	**130**	**601**
	1,211	**1,193**	**1,915**

28. Other non-financial liability

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Non-current			
Advances from state authority	351	351	1,949
Advances from customers	1,337	751	–
Advances under agency agreements	177	98	966
	1,865	**1,200**	**2,915**
Current liability			
Advances from state authority	2,806	2,806	2,806
Advances from customers	460	226	3,656
Advances under agency agreements	235	400	897
	3,501	**3,432**	**7,359**

29. Net assets attributable to non-controlling participants in LLC's

	2011 (unaudited)	2010 (unaudited)
At 1 January	**41**	**157**
Net loss attributable to non-controlling participants in LLCs (Note 12)	(12)	(24)
At 30 June (unaudited)	**29**	**133**

(Amounts in millions of Russian Rubles, unless otherwise stated)

30. Fair values of financial assets and financial liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the interim consolidated financial statements.

	Carrying amount			**Fair value**		
	30 June 2011 (unaudited)	**31 December 2010**	**1 January 2010**	**30 June 2011 (unaudited)**	**31 December 2010**	**1 January 2010**
Financial assets						
Trade and other receivables	913	634	794	913	634	794
Loans and notes receivable	3,788	3,182	2,593	3,788	3,182	2,593
Other financial assets	140	–	60	140	–	60
Cash and short-term deposits	1,882	693	158	1,882	693	158
	6,723	**4,509**	**3,605**	**6,723**	**4,509**	**3,605**
Financial liabilities						
Interest-bearing loans and borrowings:						
Floating rate borrowings	(6,644)	(7,100)	(7,352)	(6,644)	(7,100)	(7,352)
Fixed rate borrowings	(67,089)	(51,663)	(35,394)	(63,289)	(51,663)	(35,394)
Trade and other payables	(1,211)	(1,193)	(1,915)	(1,211)	(1,193)	(1,915)
	(74,944)	**(59,956)**	**(44,661)**	**(71,144)**	**(59,956)**	**(44,661)**

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade and other receivables, trade and other payables and other current financial assets approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term and short-term loans and notes receivable are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation as at as at 30 June 2011, 31 December and 1 January 2010 the carrying amounts of such loans and notes receivable are not materially different from their fair values.
- The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms and remaining maturities. The carrying values of floating rate loans and borrowings approximate their fair values as at 30 June 2011, 31 December and 1 January 2010.
- The fair value of fixed rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms and remaining maturities. The carrying values of fixed rate loans and borrowings are not materially different from their fair value as at 31 December and 1 January 2010 as the level of contracted interest rates approximates market interest rates for comparable instruments.
- The carrying values of fixed rate loans and borrowings as at 30 June 2011 is estimated by discounting future cash flows using rates currently available for debts on similar terms and remaining maturities.

(Amounts in millions of Russian Rubles, unless otherwise stated)

31. Transactions with related parties

The following table provides the details of transactions that have been entered into with related parties for the relevant six-month period ended 30 June:

	2011 (unaudited)	2010 (unaudited)
Transactions with related parties		
Services provided to associates		
Services provided to SistemApsys	18	8
Services provided to other associates	1	2
	19	**10**
Interest income from associates		
Interest income from SistemApsys S.A.R.L. and Hals-Invest-Development	206	6
Interest income from other associates	9	9
	215	**15**
Interest expense to shareholders		
Interest expense to VTB	2,475	1,940
	2,475	**1,940**

	30 June 2011 (unaudited)	31 December 2010	1 January 2010
Amounts due from associates			
Trade and other receivables from other associates	213	99	196
Loans and notes receivable from SistemApsys S.A.R.L. and Hals-Invest-Development	3,675	3,113	2,119
Loans and notes receivable other associates	109	66	418
	3,997	**3,278**	**2,733**
Amounts due to associates			
Loans and borrowings from other associates	–	3	186
Trade and other payables from other associates	7	1	22
	7	**4**	**208**
Amounts due from shareholder			
Cash and short-term deposits in VTB	1,830	683	–
	1,830	**683**	**–**
Amounts due to shareholders			
Loans and borrowings from VTB	69,636	53,567	31,610
	69,636	**53,567**	**31,610**

Major related parties with whom transactions and outstanding balances have been during the period are as follows:

- principal shareholder of the Group – VTB
- associates and jointly controlled entities – Hals-Invest-Development, SistemApsys S.A.R.L., Telecom-Development.

Group pledged collateral for loans received from VTB as disclosed in note 26.

Related party transactions are on terms equivalent to arm's length transactions.

(Amounts in millions of Russian Rubles, unless otherwise stated)

31. Transactions with related parties (continued)

Compensation of key management personnel of the Group for the six-month periods ended 30 June:

	2011 (unaudited)	2010 (unaudited)
Short-term employee benefits	42	31
Other long-term benefits	1	1

32. Financial risk management objectives and policies

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations. The Group expends loans and notes to associates and joint ventures to finance projects' development.

The Group is exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. Main market prices risks affecting the Group comprise: interest rate risk and foreign currency risk. The financial instruments held by the Group that are affected by market risk are principally interest bearing loans and borrowings, short-term deposits, loans and notes issued.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and borrowings with floating interest rates. The majority of loans and borrowings are at fixed rates and, accordingly, interest rate risk is limited. The Group does not use derivatives to manage its interest rate risk exposure.

The analysis below describes reasonably possible movements in interest rates with all other variables held constant, showing the impact on loss before tax and equity. It should be noted that the impact of movement in the variable is not necessarily linear.

30 June 2011 (unaudited)	Increase / (decrease) in basis points	Effect on loss before tax
Refinancing rate of Central Bank of the Russian Federation	+0.25%	17
	-1%	(67)

31 December 2010	Increase / (decrease) in basis points	Effect on loss before tax
Libor	+1%	21
	-0.25%	(5)
Refinancing rate of Central Bank of the Russian Federation	+1%	50
	-0.75%	(37)

(Amounts in millions of Russian Rubles, unless otherwise stated)

32. Financial risk management objectives and policies (continued)

Interest rate risk (continued)

30 June 2010 (unaudited)	**Increase / (decrease) in basis points**	**Effect on loss before tax**
Libor	+0.03%	1
	-0.03%	(1)
Refinancing rate of Central Bank of the Russian Federation	+0.25%	1
	-1%	(5)
Mosprime	+0.45%	3
	-0.45%	(3)

1 January 2010	**Increase / (decrease) in basis points**	**Effect on loss before tax**
Libor	+1%	21
	-0.25%	(5)
Mosprime	+6%	314
	-5%	(261)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the loans and borrowings and cash and short-term deposits denominated in USD. The Group does not use derivatives to manage its foreign currency risk exposure.

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	**Effect on loss before tax**
30 June 2011(unaudited)	+5.19%	(384)
	-5.19%	384
31 December 2010	+8.9%	(866)
	-8.9%	866
30 June 2010 (unaudited)	+8.14%	(614)
	-8.14%	614
1 January 2010	+14.8%	(826)
	-14.8%	826

(Amounts in millions of Russian Rubles, unless otherwise stated)

32. Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its rental activities and from its financing activities, including deposits with banks and financial institutions.

To manage credit risk related to cash and short-term deposits, the Group maintains its available cash, mainly in VTB (principal shareholder of the Group). Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Loans and notes receivables are extended to 50% associates and joint ventures for the development of underlying projects. The Group closely oversees the projects development and progress which mitigates its credit risk in this respect.

Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a rent agreement. Outstanding tenants' receivables are regularly monitored.

For inventory property sales customer credit risk is managed by requiring customers to pay advances before transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. If actual cash is below the forecasted amount, the Group has guaranteed financing from its principal shareholder, VTB.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
As at 30 June 2011 (unaudited)						
Interest-bearing loans and borrowings	–	15	2,237	78,619	7,419	**88,290**
Trade and other payables	–	1,211	–	–	–	**1,211**
	–	**1,226**	**2,237**	**78,619**	**7,419**	**89,501**
As at 31 December 2010						
Interest-bearing loans and borrowings	–	84	3,502	64,893	1,144	**69,623**
Trade and other payables	–	1,193	–	–	–	**1,193**
	–	**1,277**	**3,502**	**64,893**	**1,144**	**70,816**
As at 1 January 2010						
Interest-bearing loans and borrowings	–	400	11,834	42,805	64	**55,103**
Trade and other payables	–	1,915	–	–	–	**1,915**
	–	**2,315**	**11,834**	**42,805**	**64**	**57,018**

32. Financial risk management objectives and policies (continued)

Capital management

At 30 June 2011, 31 December and 1 January 2010 the Group has negative net assets.

In 2010-2011 the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the borrowings from VTB and other lenders or issue new shares.

33. Segment information

For management purposes, the Group is organised into business units based on development projects, and has four reportable operating segments in the six months ended 30 June 2011:

- the project Elninskaya (residential property)
- the project Pekin (residential and non-residential property)
- the project Khamovniki (residential property)
- the project City 11 (investment property)

Other projects include small construction or operating rent projects due to its size or in start-up activity and are presented as “other segments”.

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating results as defined below. This performance indicator is measured on a basis that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on accrual basis, and management accounts are prepared on cash basis.

Segment revenue is cash inflows reported in the Group’s management accounts that are directly attributable to a segment being cash received or non-cash forms of settlement (settlements in the form of offset and through notes instruments) from customers for sale of residential or investment property under construction, or for operating rent of premises and rendering of services.

Segment expense is cash outflows reported in the Group’s management accounts that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to external, intergroup counterparties and expenses relating to transactions with other segments. Segment expense includes also net cash flows from investment and financing activity of the Group.

Segment result is segment revenue less segment expense that is equal to movement in cash flows and non-cash settlements for the reporting period.

Segment assets and liabilities are not reviewed by the Group’s chief operating decision maker on other than consolidated basis and presented in these consolidated financial statements.

(Amounts in millions of Russian Rubles, unless otherwise stated)

33. Segment information (continued)

The following tables present measures of segment revenues and segment results on management accounts in accordance with IFRS 8 and a reconciliation of revenue and segment result used by management for decision making and revenue and loss before tax per the consolidated financial statements prepared under IFRS:

The six-month period ended 30 June 2011 (unaudited)

	Elninskaya	Pekin	City 11	Khamovniki	Other	Total
Segment revenue	**876**	**130**	**–**	**–**	**268**	**1,274**
Accrual vrs. cash basis						(918)
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**356***

** - Includes rental income, sales of inventory property and other sales per the interim consolidated statement of comprehensive income*

The six-month period ended 30 June 2011 (unaudited)

	Elninskaya	Pekin	City 11	Khamovniki	Other	Total
Segment result	**346**	**(1,585)**	**586**	**(209)**	**(83)**	**(945)**
Accrual vrs. cash basis						(133)
Loss before tax per IFRS consolidated financial statements	**–**	**–**	**–**	**–**	**–**	**(1,078)**

In 2010 the Group considered that it only has one operating segment under IFRS 8. The Group's chief operating decision maker reviewed the Group's operations and allocated resources on consolidated Group basis. Segment performance was evaluated based on profit or loss and was measured consistently with profit or loss in the consolidated financial statements. The Group has not restated the corresponding items of segment information for the six month period ended 30 June 2010 to reflect the change in the structure of its internal organisation, since the information is not available and the cost to develop it would be excessive. The segment information for the six month period ended 30 June 2011 on the old basis of segmentation is presented in the interim consolidated statement of comprehensive income.

34. Guarantees and pledges

Warranties and guarantees of work performed – The Group is contractually responsible for the quality of construction works performed subsequent to the date at which the relevant object was handed over, generally for a period up to 2 years subsequent to handover. Based upon prior experience with warranty claims, which have not been significant, no contingent liabilities have been recorded in the Group's interim consolidated financial statements in relation to warranties and guarantees for work performed.

(Amounts in millions of Russian Rubles, unless otherwise stated)

34. Guarantees and pledges (continued)

Pledges – As of 30 June 2011and 31 December 2010 common shares of the Group's entities have been pledged as follows:

Group`s company	Projects	Number of shares pledged	Number of shares pledged as a percentage of total shares
OJSC Lubyanka-Development	DM Lubyanka	22,004,320	100%
OJSC Sistema-Temp	Bol`shaya Tatarskaya, 35	4,680,000	100%
OJSC Beiging-Invest	Pekin (Bol`shaya Sadovaya)	1,350	90%
CJSC EZNCh	L`va Tolstogo, 23 (Khamovniki)	100	100%
CJSC Kuntsevo-Invest	Rublevskoe highway, 111 A; Elninskaya, 28A	5,000	100%
CJSC Hals-Tehnopark	Povarskaya, 8	1,890,900	50%
CJSC Ekvivalent	Nevskaja ratusha	500	50%

As of 30 June 2011 and 31 December 2010 the Group pledged land plots (inventory property) in the Odintsovsky Region (Soloslovo) with a carrying amount of RUR 6,405 and RUR 5,823 million, respectively, as security under the credit line from VTB in the amount of RUR 4.0 billion and RUB 4.0 billion, respectively.

As of 31 December 2010 the Group pledged Business Center "Danilovsky Fort" (completed investment property) with a carrying amount of RUR 2,178 million, respectively, as security under the credit line from VTB in the amount of RUR 792 million. The loan was fully repaid in 2011.

As of 30 June 2011 and 31 December 2010, the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region (inventory property) with a carrying amount of RUR 1,439 million and RUR 1,442 million, respectively, as security under the loan received from Vnesheconombank in the amount of RUR 1,701 and RUR 1,701 million, respectively.

The Group has guaranteed the credit line of RUR 6,152 million obtained by Hals-Invest-Development (Group's joint venture with Apsys) from Eurohypo and pledged loan issued to this joint venture (Note 22) in the amount of RUR 1,500 million and RUR 1,500 million as of 30 June 2011 and 31 December 2010, respectively. As of 30 June 2011 and 31 December 2010 Hals-Invest-Development utilised the credit line in the amount of RUR 1,962 million and RUR 2,130 million, respectively.

As of 30 June 2011 the Group pledged Detsky Mir Lubyanka with a carrying amount of RUR 5,958 million as security under the credit line from VTB in the amount of RUR 819 million.

As of 30 June 2011 the Group pledged Detsky Mir Kazan with a carrying amount of RUR 104 million as security under the credit line from VTB in the amount of RUR 100 million.

35. Commitments and contingencies

Operating environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory framework which would meet the requirements of a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

In 2011-2012, the Government of the Russian Federation continued measures to support economy in order to overcome consequences of the global financial crisis. While there are signs of economic recovery, the persisting uncertainty over the future economic growth, access to capital and cost of capital could affect the Group’s financial position, results of operations and business prospects.

The Group's management takes all the steps necessary to support the economic stability of the Group in the current situation. However, any further worsening of the above situation may have an adverse effect on the Group's performance and financial position. Currently, it seems impossible to determine the extent of the effect.

Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government’s implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

During the six-month periods ended 30 June 2011 and 2010, the Group entered into a number of investing activities in another tax jurisdiction, their tax effect is described as “Effect of tax rates in other jurisdictions” in Note 14 “Income taxes”. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. Possible liabilities, which were identified by management at the reporting date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these interim consolidated financial statements could be up to approximately RUR 1,086 million.

35. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

There is no clarity in Russian civil and tax law regarding the nature of the (co-)investment agreements. During last several years largely consistent approach to tax treatment of such contracts has been accepted by tax authorities and courts. In July 2011 Plenum of Highest Arbitration Court has issued civil law interpretation of such contracts. This interpretation is different from that widely accepted previously. Such change in interpretation can result in different tax treatment of (co-)investment agreements that the Company has as of July 2011, as well as those which the Company had in the previous periods still open for the tax audit. Taking into account the above court interpretation has not addressed tax matters, at the moment, it is difficult to predict whether and to which extent the tax treatment will change. If tax treatment changes it may result in material effect for the Company. However at the moment respective amounts cannot be accurately estimated.

Industry regulation

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land Code, the City Construction Code, the Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith, construction norms and regulations approved by the Ministry of Industry and Energy, and others. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

In addition, construction is subject to applicable environmental, fire safety and sanitary norms and regulations.

The Group is constructing a number of cottages without obtaining the necessary construction permits. However, management is in the process of addressing this issue and does not foresee that this will adversely affect the Group's financial position or results of operations.

Legal proceedings

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all current and pending litigations or other legal proceedings will not have a material effect upon the financial condition, results of operations or liquidity of the Group, other than as is already reflected in these interim consolidated financial statements.

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to 30 June 2011. A summary of significant commitments under construction contracts is provided below:

Gorki-8 (land plot) – The Group entered contractual agreements for construction of housing estate in Moscow Region. Commitments under these contracts amounted to RUR 8,399 million and RUR 14,594 million as of 30 June 2011 and 31 December 2010, respectively.

35. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Skylight – The Group entered contractual agreements for construction of multifunctional complex with two office buildings in Moscow. Commitments under these contracts amounted to RUR 2,430 million and RUR 4,298 million as of 30 June 2011 and 31 December 2010, respectively.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 4,858 million and RUR 5,438 million as of 30 June 2011 and 31 December 2010, respectively.

Kamelia – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 4,285 million and RUR 4,651 million as of 30 June 2011 and 31 December 2010, respectively.

Elninskaya 28A – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 1,175 million and RUR 2,135 million as of 30 June 2011 and 31 December 2010, respectively.

City-11– The Group entered contractual agreements for construction of multifunctional terminal complex “City-11”. Commitments under these contracts amounted to RUR 9,850 million as of 30 June 2011.

Operating leases

With a few exceptions, land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments.

Environmental regulations

Environmental laws and regulations impose certain restrictions and encumbrances on the properties that the Group holds or develops. Some of the land plots under development are located in areas that have special environmental protection. In addition, the development of a project may be subject to certain obligations, including planting of greenery and clean-up measures. These requirements may result in delays in the development of projects, or additional costs.

36. Subsequent events

In July 2011 Group pledged 50.5% stake in Citer Invest B.V., which owns the project multifunctional terminal complex “City 11”, as security under the credit line from VTB in the amount of USD 84 million (RUR 2,358 million).