

**INFORMATION MEMORANDUM**

**DATED SEPTEMBER 30, 2011**



**PIK GROUP**

## IMPORTANT INFORMATION

This Information Memorandum contains information about PIK Group, an open joint stock company organized under the laws of Russia (the “**Company**”).

No part of this Information Memorandum, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. Investors and prospective investors in any of our securities are required to make their own independent investigation and appraisal of our business and financial condition and the nature of such securities. Any decision to purchase securities in the context of a proposed offering of securities, if any, should be made solely on the basis of information contained in an offering circular or prospectus published in relation to such an offering.

This Information Memorandum is not an offer for sale of securities in the United States and is only addressed to and is only directed at persons who are “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”)) in the United States. The Company has not registered and does not intend to register any of its securities in the United States.

This Information Memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i), (ii) and (iii) above together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this Information Memorandum or any of its contents.

This Information Memorandum is only addressed to and directed at persons in member states of the European Economic Area (the “**EEA**”), who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU (the “**Prospectus Directive**”) (including any relevant implementing measure in each relevant member state of the EEA).

Neither this Information Memorandum nor any copy of it may be taken or transmitted into, or distributed, directly or indirectly, in Canada, Australia or Japan or to Canadian persons or to any securities analyst or other person in these jurisdictions. Any failure to comply with this restriction may constitute a violation of Australian, Canadian or Japanese securities law. The Company has not registered and does not intend to register any of its securities under the applicable securities laws of Canada, Australia and Japan.

This Information Memorandum should not be considered as a public offer or advertisement of our securities in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any of our securities in the Russian Federation. Any information on the Ordinary Shares in this Information Memorandum is intended for, and addressed only to, “qualified investors” (as defined under Russian law) or persons outside of the Russian Federation.

The distribution of this Information Memorandum in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. This Information Memorandum is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Our business, financial condition, results of operations, prospects and the information set forth in this Information Memorandum may have changed since the date of this Information Memorandum. Neither the Company, nor any of its affiliates, agents, employees, advisors, or any other person intend or have any duty or obligation to supplement, amend, update, revise or keep current this Information Memorandum or any information contained herein. The information and opinions contained in this document are provided as at the date of this Information Memorandum and are subject to change without notice.

We have included our own estimates, assessments, adjustments and judgments in preparing certain market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by us approximately reflects the industry

and the markets in which we operate, there is no assurance that our own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

You should not consider any information in this Information Memorandum to be investment, legal or tax advice.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

This Information Memorandum includes the Audited Consolidated Financial Statements as of and for the years ended December 31, 2008, 2009 and 2010 (together, the “**Audited Consolidated Financial Statements**”) as well as our unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2011 (the “**Unaudited Consolidated Financial Statements**”), and together with the Audited Consolidated Financial Statements, the “**Consolidated Financial Statements**”). The Audited Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board, in effect at the time of their respective preparation. The Unaudited Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The Audited Consolidated Financial Statements have been audited by ZAO KPMG, independent auditors, as stated in their report appearing therein. The Audited Consolidated Financial Statements in respect of the years ended December 31, 2008 and 2009 have been reissued to illustrate the effect of restatements of certain items (see “*Selected Consolidated Financial Information and Other Operating Data — Restatements*”). The Audited Consolidated Financial Statements attached to this Information Memorandum as Annex A include restated (and not original) numbers as of and for the years ended December 31, 2008 and December 31, 2009.

### Qualification

The Group’s independent auditors qualified their audit opinion dated May 4, 2011 in respect of the Audited Consolidated Financial Statements. In 2009, we entered into the following transactions with one of our creditors, Lakebed Trading Limited: (i) the repayment of a loan of RUB 1,969 million (including the original principal amount of the loan, as well as the capitalized interest and penalties accrued from October 2008 to August 2009), which was originally provided by IBG Development Group Inc., in October 2008 and assigned to Lakebed Trading Limited in December 2008, (ii) the accrual of interest expense and penalties under the loan agreement of RUB 1,130 million from October 2008 to December 2009; and (iii) the sale of PIK Nerud, our subsidiary, for a consideration of USD 65 million (RUB 2,077 million), to Lakebed Trading Limited in August 2009. Despite the presence of certain indications, at the time of the transactions, and as of the date when the audit report and the Audited Consolidated Financial Statements were issued, we were not able to identify the beneficial owners of Lakebed Trading Limited and, consequently, our consolidated financial statements did not disclose the above transactions as related party transactions. The auditors’ opinion on the Audited Consolidated Financial Statements was qualified accordingly. These indications were as follows: (i) the remaining promissory notes issued to Lakebed Trading Limited were later returned to us by Gallows Marketing Group Ltd. and Quinturin, entities known to be affiliated with Mr. Zhukov, one of our Founding Shareholders, in separate transactions (ii) the loan underlying the promissory notes was originally made by IBG Development Group, a company beneficially owned by Mr. Zhukov, and later assigned to Lakebed Trading Limited, (iii) the loan provided by IBG Development Group was not on market terms, (iv) after the sale of PIK Nerud, there were reports in the Russian press indicating that PIK Nerud is now owned by Mr. Zhukov. We now believe that these transactions were in fact related-party transactions with an affiliate of Mr. Zhukov, one of our Founding Shareholders.

See “*Related Party Transactions*” for a more detailed description of our material related party transactions.

### Restatements

The Audited Consolidated Financial Statements in respect of the years ended December 31, 2008 and 2009 have been reissued to illustrate the effect of restatements of certain items in the Audited Consolidated Financial Statements relating to the presentation of long-term loans and borrowings and the revision of construction costs for certain completed projects as set out in “*Selected Consolidated Financial Information and Other Operating Data — Restatements*.”

### Presentation of Non-IFRS Measures

We have included certain measures in this Information Memorandum that are not measures defined by IFRS and are not derived from our historical consolidated financial statements. In particular, EBITDA, EBITDA margin and Adjusted EBITDA are non-IFRS measures and were calculated by us based on data derived from our historical consolidated financial statements.

EBITDA represents total comprehensive income/(loss) for the period before income tax expense, interest income, interest expense including penalties payable and depreciation and amortization. Adjusted EBITDA represents EBITDA before impairment losses and reversal of impairment, impairment losses on financial assets, foreign exchange losses, share of loss of

equity accounted investees (net of tax), gain/loss on disposal of property, plant and equipment, gain/loss on disposal of subsidiaries and development rights, effect of termination of long-term land lease agreements, provision for doubtful accounts and accrued penalties and fines, including reversals. We define EBITDA margin as EBITDA divided by revenue.

We believe that the presentation of EBITDA, Adjusted EBITDA and EBITDA margin enhances an investor's understanding of our financial performance. However, these measures should not be used instead of, or considered as alternatives to, our historical financial results based on IFRS. See "*Selected Consolidated Financial Information and Other Operating Data.*"

## **Currencies**

Our functional currency is the Russian Rouble, as it reflects the economic substance of our underlying events and circumstances. Our presentation currency is also the Russian Rouble. Solely for the convenience of the reader, certain amounts included in this Information Memorandum have been translated from Roubles into U.S. dollars, as set forth under "*Currencies and Exchange Rates.*" You should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all.

## **Rounding**

Certain amounts that appear in this Information Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## **Certain Definitions, Conventions and Jurisdictions**

In this Information Memorandum, all references to:

- "**city of Moscow**" are to a non-legal term broadly used in the Russian Federation which means Moscow state authorities, including, in particular, the Moscow Government;
- "**Company**" are to Open Joint Stock Company PIK Group;
- "**economic downturn**" are to the global economic and financial crisis that began in the second half of 2008, and, where the context permits, the resulting downturn in the Russian residential real estate market;
- "**Garden Ring Road**" are to the automobile ring road encompassing the Moscow city centre;
- "**Government**" are to the Russian federal government;
- "**Group**", "**we**", "**our**", "**us**" and similar expressions, unless the context otherwise requires, refer collectively to the Company and its consolidated subsidiaries.
- "**ha**" are to hectares;
- "**MKAD ring road**" are to the automobile ring road encompassing Moscow;
- "**Moscow Government**" are to the superior collegial executive state body headed by the Mayor of Moscow, which is entitled, in particular, to allocate land for construction on the basis of investment contracts entered into with real estate developers;
- "**Moscow Metropolitan Area**" and "**MMA**" are to Moscow and the Moscow region;
- "**NSA**" are to net saleable, or as the context requires, leasable area;
- "**PIK Share**" are to the net sellable area in a project under development attributable to the Company, equal to the aggregate net sellable area of the development multiplied by our share of the aggregate net sellable area in the development (expressed as a percentage);

- “**Russia**” are to the Russian Federation;
- “**sq. km.**” are to square kilometer(s);
- “**sq. m.**” are to square meter(s);
- “**Third Ring Road**” are to the automobile ring road, located between the Garden Ring Road and MKAD ring road;
- “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland; and
- “**U.S.**” and “**United States**” are to the United States of America.

#### **Certain Legal Entities**

In this Information Memorandum, all references to:

- “**100 KGI**” are to Open Joint Stock Company “100 Kombinat Zhelezobetonnykh Izdeliy”;
- “**160 DSK**” are to Open Joint Stock Company “160 Domostroitelny Kombinat”;
- “**480 KGI**” are to Open Joint Stock Company “480 Kombinat Zhelezobetonnykh Izdeliy”;
- “**Absolut Bank**” are to Closed Joint Stock Company “Joint Stock Commercial Bank «Absolut Bank»”;
- “**AHML**” are to Open Joint Stock Company “Agency for Housing Mortgage Lending”;
- “**Alanteya**” are to Limited Liability Company “Alanteya”;
- “**Avtokombinat No. 32**” are to Closed Joint Stock Company “Avtokombinat No. 32”;
- “**Baltica Bank**” are to Open Joint Stock Company “Commercial Baltica Bank”;
- “**Bank Vozrozhdenie**” are to Open Joint Stock Company “Bank Vozrozhdenie”;
- “**Bank Zenit**” are to Open Joint Stock Company “Bank Zenit”;
- “**BFSK**” are to Closed Joint Stock Company “Baltiyskaya Finansovo-Stroitel'naya Kompaniya”;
- “**Binbank**” are to Open Joint Stock Company “B&N Bank”;
- “**Comfort**” are to Closed Joint Stock Company “Comfort”;
- “**DSK-2**” are to Open Joint Stock Company “Domostroitelny Kombinat No. 2”;
- “**DSK-3**” are to Open Joint Stock Company “Domostroitelny Kombinat No. 3”;
- “**Energoservice**” are to Closed Joint Stock Company “Energoservice”;
- “**Europroekt**” are to Limited Liability Company “Europroekt”;
- “**EuroSystems**” are to Closed Joint Stock Company “EuroSystems”;
- “**Garanti Bank**” are to Closed Joint Stock Company “Commercial Bank «Garanti Bank – Moscow»”;
- “**Gazprombank**” are to Open Joint Stock Company “Gazprombank”;

- “**Gazstroy**mash” are to Open Joint Stock Company “«Gazstroy
- “**Housing Finance Bank**” are to Closed Joint Stock Company “Bank Zhilishnogo Finansirovaniya”;
- “**Investtradebank**” are to Open Joint Stock Company “Joint – Stock Commercial Bank «Investment Trade Bank»”;
- “**Izh-Stroy**” are to Limited Liability Company “Izh-Stroy”;
- “**KHZ**” are to Open Joint Stock Company “Kuskovsky Ordena ‘Znak Pocheta’ Chemicals Plant”;
- “**Krasniy Vostok**” are to Closed Joint Stock Company “Trikotazhnoe Predpriyatie «Krasniy Vostok»”;
- “**KSRZ**” are to Joint Stock Company “Krasnopresnensky Sugar Refinery”;
- “**Kuntsevo-Invest**” are to Closed Joint Stock Company “Kuntsevo-Invest”;
- “**Lasteya Art**” are to Closed Joint Stock Company “Lasteya Art”;
- “**Max Ltd.**” are to Limited Liability Company “Max Ltd.”;
- “**Mayak**” are to Limited Liability Company “Mayak”;
- “**MFS-PIK**” are to Limited Liability Company “MFS-PIK”;
- “**Monetchik**” are to Closed Joint Stock Company “Monetchik”;
- “**Morgan Stanley**” are to “Morgan Stanley Senior Funding, Inc.”;
- “**Moskapstroy**” are to Open Joint Stock Company “Moskapstroy”;
- “**Mosproekt**” are to Public Joint Stock Company for the intergrated design of residential communities, unique buildings and structures “Mosproject”;
- “**Mospromstroy**” are to Closed Joint Stock Company “Mospromstroy”;
- “**Nomos-Bank**” are to Open Joint Stock Company “Nomos-Bank”;
- “**Nomura**” are to “Nomura International Plc.”;
- “**Nordea Bank**” are to Open Joint Stock Company “Nordea Bank”;
- “**Novokurkino**” are to Limited Liability Company “Holding Company «Upravlenie Eksperimentalnoy Zastroyki Novokurkino»”;
- “**NovorosGrazhdanproekt**” are to Closed Joint Stock Company “NovorosGrazhdanproekt”;
- “**NSS**” are to Limited Liability Company “NSS”;
- “**Park-City Investment**” are to Closed Joint Stock Company “Park-City Investment”;
- “**PIK Avtotrans**” are to Limited Liability Company “PIK-Avtotrans”;
- “**PIK Comfort**” are to Limited Liability Company “PIK-Comfort”;
- “**PIK Kama**” are to Limited Liability Company “PIK Kama”;



- “**PIK Kuban**” are to Closed Joint Stock Company “PIK Kuban”;
- “**PIK Moskva**” are to Limited Liability Company “PIK-Moskva”;
- “**PIK Nerud**” are to Limited Liability Company “PIK Nerud”;
- “**PIK Podyom**” are to Limited Liability Company “PIK-Podyom”;
- “**PIK Profile**” are to Limited Liability Company “PIK-Profile”;
- “**PIK Regional Development**” are to Limited Liability Company “PIK Razvitie Territoriy”;
- “**PIK Severo-Zapad**” are to Limited Liability Company “PIK Severo-Zapad”;
- “**PIK Technology**” are to Limited Liability Company “PIK Tekhnolodzhi”;
- “**PIK Zapad**” are to Closed Joint Stock Company “PIK Zapad”;
- “**PIK Zapadnaya Sibir**” are to Closed Joint Stock Company “PIK Zapadnaya Sibir”;
- “**PIK-Invest**” are to Limited Liability Company “PIK-Invest”;
- “**PIK-Region**” are to Closed Joint Stock Company “First Mortgage Company – Region”;
- “**PIK-Verhnaya Volga**” are to Closed Joint Stock Company “PIK-Verhnaya Volga”;
- “**Podmoskovie 160 DSK**” are to Closed Joint Stock Company “160 Domostroitelny Kombinat Podmoskovie”;
- “**Polikvart**” are to Limited Liability Company “Residential and Social Building Design and Construction Center «Polikvart»”;
- “**Promsvyazbank**” are to Open Joint Stock Company “Promsvyazbank”;
- “**Pulkovo Estate**” are to Limited Liability Company “Pulkovo Estate”;
- “**Quinturin**” are to Limited Liability Company “Quinturin”;
- “**Rosbank**” are to Open Joint Stock Company “Joint Stock Commercial Bank «Rosbank»”;
- “**Rostovkapstroy**” are to Limited Liability Company “Rostovkapstroy”;
- “**Sberbank**” are to “Sberbank of Russia” (open joint stock company);
- “**SIR-NN**” are to Closed Joint Stock Company “Stroyinvestregion NN”;
- “**PIK Sluzhba Zakazchika**” are to Limited Liability Company “PIK Sluzhba Zakazchika”;
- “**SoftGrant**” are to Limited Liability Company “SoftGrant”;
- “**Status Land**” are to Limited Liability Company “Status Land”;
- “**Stroybusinesscenter**” are to Closed Joint Stock Company “Stroybusinesscenter”;
- “**Stroycoresurs**” are to Limited Liability Company “Stroycoresurs”;
- “**StroyInvest**” are to Limited Liability Company “StroyInvest”;

- “**Stroyinvestregion**” are to Closed Joint Stock Company “Stroyinvestregion”;
- “**Stroyzhilinvest 16**” are to Limited Liability Company “Stroyzhilinvest 16”;
- “**Svyaz-Bank**” are to Open Joint Stock Company “Interregional Bank for Settlements of the Telecommunications and Postal Services”;
- “**Trehgorie**” are to Closed Joint Stock Company “Obyedinennoe Predpriyatie Trehgorie”;
- “**Tverdynya**” are to Limited Liability Company “Tverdynya”;
- “**UDSK**” are to Limited Liability Company “Upravlyayuschaya Domostroitelnaya Kompaniya”;
- “**Uralsib**” are to Open Joint Stock Company “Bank Uralsib”;
- “**Veistoun**” are to Limited Liability Company “Veistoun”;
- “**Volga Form**” are to Closed Joint Stock Company “Zavod Dobornogo Zhelezobetona «Volga Form»”;
- “**VTB**” are to “VTB Bank (open joint stock company)”;
- “**VTB 24**” are to Closed Joint Stock Company “Bank VTB 24”; and
- “**Zagorodnaya Usadba**” are to Limited Liability Company “Zagorodnaya Usadba”.

## PRESENTATION OF INDUSTRY AND MARKET DATA

Market data used in this Information Memorandum, including statistics in respect of our competitors' sales volumes and market share, has been extracted from official and industry sources and other sources we believe to be reliable in the sections headed "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry*" and "*Business*". Such information, data and statistics may be approximations or estimates or use rounded numbers. We have relied on the accuracy of this information without independent verification.

In particular, we have cited: the Central Bank of the Russian Federation (the "**CBR**"), the Federal State Statistics Service ("**Rosstat**"), the Economist Intelligence Unit ("**EUI**"), Bloomberg, the United Nations Economic Commission of Europe ("**UNECE**"), Indikatory rynka nedvizhimosti (the "**IRN**"), CBRE, the British Petroleum 2011 Statistical Review of World Energy ("**British Petroleum**"), DSK-1 and SU-155 as sources in this Information Memorandum under the caption "*Industry*"; CBRE, Rosstat, the CBR and the Russian Ministry of Industry and Trade under the caption "*Business*", and Rosstat under the caption "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", which, in each case, are independent sources.

In addition, some of the information contained in this document has been derived from the official data of Russian government agencies. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Information Memorandum is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian Government may be questionable.

We note that these independent sources do not accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution.

## PRESENTATION OF REAL ESTATE MARKET VALUES

All real estate market values presented herein are from the report of CB Richard Ellis (“**CBRE**”), an independent appraiser, dated September 2, 2011. This report is referred to herein as the “**Valuation Report**.” The Valuation Report is available on our website at <http://www.pik-group.com/investors/presentations/portfolio-presentation/2011/pik-groups-property-portfolio-overview-as-of-june-30-2011-september-13-2011/Portfolio%20valuation%20report.pdf>. CBRE appraised 100 properties at various stages of development. Our portfolio of properties and our development projects are generally referred to herein as “properties.” The properties have been valued as of June 30, 2011. Each property has been valued on the basis of “**Market Value**” in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (the “**Red Book**”). This is an internationally accepted basis of valuation. In the Red Book, “Market Value” is defined as “The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. “See *“Business — Real Estate Development Segment — Valuation of our Properties.”*”

## CURRENCIES AND EXCHANGE RATES

All references in this Information Memorandum to:

- “RUB” and “Rouble” are to the lawful currency of Russia;
- “\$”, “USD”, “Dollars” and “U.S. dollars” are to the lawful currency of the United States of America; and
- “€”, “EUR” and “euro” are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the treaty establishing the European Community (“EC”), as amended by the Treaty on European Union.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this Information Memorandum.

<u>Years Ended December 31,</u>	Roubles per U.S. dollar			
	High	Low	Average <sup>(1)</sup>	Period end
2006.....	28.78	26.18	27.19	26.33
2007.....	26.58	24.26	25.58	24.55
2008.....	29.38	23.13	24.86	29.38
2009.....	36.43	28.67	31.72	30.24
2010.....	31.78	28.93	30.37	30.48

<u>Months</u>	Roubles per U.S. dollar			
	High	Low	Average <sup>(1)</sup>	Period end
September 2011 .....	32.46	28.89	30.51	31.88
August 2011 .....	29.45	27.52	28.77	28.86
July 2011 .....	28.38	27.44	27.90	27.68
June 2011 .....	28.35	27.68	27.98	28.08
May 2011 .....	28.48	27.26	27.87	28.07
April 2011 .....	28.52	27.50	28.09	27.50
March 2011 .....	28.90	28.16	28.43	28.43
February 2011 .....	29.80	28.94	29.29	28.94
January 2011 .....	30.63	29.67	30.09	29.67

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

The exchange rate between the Rouble and the U.S. dollar quoted by the CBR on September 30, 2011 was 31.88 Roubles per USD 1.00.

Solely for the convenience of the reader, certain information derived from the Consolidated Financial Statements and other financial information included in this Information Memorandum has been translated into U.S. dollars. Unless otherwise specified, the U.S. dollar amounts representing consolidated statements of comprehensive income and consolidated statements of cash flows data have been translated from the Rouble amounts at the average rates for the six months ended June 30, 2011 of RUB 28.08 = USD 1.00 and RUB 28.08 = USD 1.00 for the six months ended June 30, 2010 and at annual average rates of RUB 30.37 = USD 1.00 for the year ended December 31, 2010, RUB 31.72 = USD 1.00 for the year ended December 31, 2009 and RUB 24.86 = USD1.00 for the year ended December 31, 2008. The U.S. dollar amounts representing consolidated statements of financial position data as of June 30, 2011 have been translated from the Rouble amounts at the June 30, 2011 rate of RUB 28.08 = USD 1.00. The U.S. dollar amounts representing consolidated statements of financial position data as of December 31, 2008, 2009 and 2010 have been translated from the Rouble amounts at the 2008 year-end rate of RUB 29.38 = USD 1.00, the 2009 year-end rate of RUB 30.24 = USD 1.00 and the 2010 year-end rate of RUB 30.48 = USD 1.00, respectively. No representation is made that the Rouble or U.S. dollar amounts in this Information Memorandum could have been converted into U.S. dollars or Roubles, as the case may be, at any particular rate or at all.

For a discussion of the effects of fluctuating exchange rates on our results of operations, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Qualitative Disclosures about Market Risks - Currency Risk*”.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Information Memorandum are not historical facts and are forward-looking. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Information Memorandum including, without limitation, “*Risk Factors*,” “*Business*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of our businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for our properties;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives;
- our competitive strengths and weaknesses; and
- the strengths of our competitors.

The forward-looking statements in this Information Memorandum are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond our control, and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in Russia, including significant declines in Russia’s gross domestic product (“**GDP**”);
- changes in the policies of the government of the Russian Federation, including those of the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- changes in the policies or leadership of the Moscow Government;
- increased interest rates and operating costs, including the supply of, and the price for, building materials in Russia;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through various sources, but primarily through cash from operations (mainly, cash from pre-sales of residential properties) and borrowings;

- our ability to implement successfully any of our business strategies;
- decreased sales prices for our properties;
- our ability to obtain necessary regulatory approvals;
- changes in customer preferences resulting in decrease of demand for our properties;
- our ability to identify suitable development sites to acquire and to successfully complete acquisitions and developments;
- changes in the regulation of real estate and the environment;
- competition in the marketplace;
- changes in real property or other tax rates;
- changes in accounting standards or practices;
- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the impact of general business and global economic conditions; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, neither we nor any of our agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this Information Memorandum.



## INFORMATION MEMORANDUM OVERVIEW

*The following overview should be read as an introduction to the more detailed information appearing elsewhere in this Information Memorandum, including our Consolidated Financial Statements and the accompanying notes attached as Annexes A and B to this Information Memorandum. No civil liability will attach to us solely on the basis of this overview unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Information Memorandum.*

### Overview

We are one of the leading residential real estate developers in Russia, with a particular strategic focus on the Moscow Metropolitan Area. Our principal activity is the development, construction and sale of mass-market residential properties in the Russian real estate market. We believe we have a well-recognized brand in the Russian real estate market, particularly in the Moscow Metropolitan Area. During 2010 and the six months ended June 30, 2011, we completed construction of approximately 739 thousand square meters and 354 thousand square meters of residential housing, respectively, including housing constructed for federal and local authorities and other developers. We are one of the few integrated developers in Russia, which allows us to manage and control many of the important steps of the development and sales of our properties. For the year ended December 31, 2010 and the six months ended June 30, 2011, we had revenues of RUB 38,090 million and RUB 22,794 million and total comprehensive loss of RUB 6,085 million and total comprehensive income of RUB 3,186 million, respectively.

We believe that our integrated real estate development process gives us an important advantage in our industry as compared to our competitors. We own several plants that produce reinforced concrete panels, window frames and aluminum facades that are used in the construction of our projects, and, in the Moscow Metropolitan Area, we assemble and construct all concrete panel housing for our developments. We also provide servicing and maintenance for a substantial number of our developed properties. Beyond our own operational capabilities, we have established and continue to build strategic relationships with a wide range of financial institutions that provide mortgage financing to our clients, including state-controlled Sberbank, VTB 24 and Gazprombank and privately-owned Rosbank, Svyaz-Bank, Bank Vozrozhdenie, Uralsib, Housing Finance Bank, Investradbank, Baltica Bank and Nordea Bank.

We focus our operations on developing large residential properties, some of which are large townships integrated with social infrastructure (e.g., kindergartens, schools and sport centers). As of June 30, 2011, our portfolio of real properties (“properties” or “development projects”) encompassed 100 properties, including 8 properties held as investment (completed and partially sold residential properties), 44 properties in the course of development and 48 properties held for development. These properties have been internally approved for a total of 12.9 million square meters of net sellable area attributable to the Company (PIK Share). According to the Valuation Report, as of June 30, 2011, the combined Market Value of our properties was USD 2.7 billion. See “*Business — Development Projects — Ongoing Development Projects.*” As of June 30, 2011, our large and diversified land bank consisted of 1,513.39 hectares of land, which we believe helps us ensure sustainability of our growth and a leading market position in the future.

We own two of the three reinforced concrete panel manufacturers in Moscow, DSK-2 and DSK-3. We also own 100 KGI, which is a concrete panel manufacturer located in the Moscow region, as well as NSS and 480 KGI. NSS is a manufacturer of concrete, reinforced concrete elements and panels and other construction materials located in Obninsk, the Kaluga region, close to the border of the Moscow region. 480 KGI is a manufacturer of prefabricated panel housing located in Alexin, a town in the Tula region. Industrial and construction facilities that we own have the aggregate prefabricated production capacity of approximately 1,350 thousand square meters of housing per year.

Our operations have historically been concentrated in the Moscow Metropolitan Area. Since the beginning of 2007, we have developed and completed over 1 million square meters of housing in Moscow (including housing constructed for federal and local authorities and other developers) and over 1.5 million square meters of housing in the Moscow region. We have also undertaken a number of development projects in other regions of Russia, including Rostov-on-Don, Nizhniy Novgorod, Yaroslavl, Perm, Kaluga, Kaliningrad, Izhevsk, Novorossiysk, Omsk and St. Petersburg. As of June 30, 2011, 27 of our properties were located in Moscow, 25 in the Moscow region and 48 in other regions of Russia.

### COMPETITIVE STRENGTHS

- Leading market position in the Moscow Metropolitan Area and a significant presence in Russia’s other regions;

- Integrated business model;
- Large and diversified land bank;
- Flexible business model securing a high level of utilization of our production capacity to construct large scale residential developments in a short period of time;
- Strong brand recognition, a well-established reputation and long-standing relationships with governmental authorities; and
- Experienced and dedicated management team enhanced by a strong board of directors.

#### **STRATEGY**

- Focus on development of the mass-market residential real estate;
- Focus on the Moscow Metropolitan Area;
- Optimization of the land bank structure; and
- Increase of efficiency of our integrated operations with focus on full utilization of our production capacity.

#### **RISK FACTORS**

We are subject to a number of risks, including those relating to or arising from the Group's business and industry, political, social, economic, legislative and legal risks associated with Russia and risks arising from the nature of our securities and the markets upon which they are expected to be traded, including business risks associated with the following matters:

- cyclicity of the Russian real estate market;
- numerous development, construction and investment risks inherent to real estate development;
- potential delays in commencement or completion of construction and financial loss with respect to real estate development projects, a number of which are currently in the early stages of development;
- our significant indebtedness, restrictive covenants of our financing arrangements and enforcement of certain provisions;
- our ability to obtain adequate capital to fund our working capital requirements, including the effect of the Cost Sharing Law on our ability to finance construction projects from pre-sales of apartments;
- weaknesses and deficiencies in our internal controls and we have in the past had a lack of focus on some of our continuing obligations as a London-listed company;
- our ability to locate and acquire land suitable for development at attractive prices and upon favorable terms and conditions;
- potential delays in acquiring legal title and difficulty or impossibility of establishing title that is not susceptible to challenge or delays;
- potential challenges to our ownership interests or lease rights in land and our ability to enter into land lease agreements or renew land lease rights as they expire or the rescission of investment contracts;
- unexpected fluctuations in the rents we pay in respect of land leases;
- broad discretion of various governmental authorities over the issuance of development rights and potential deterioration of our relationships with such authorities;

- potential delays or refusals in obtaining all necessary governmental permits and authorizations and our ability to comply with the terms and conditions of such permits and authorizations;
- availability and cost of components, materials and subcontractors, and availability of sufficient local infrastructure;
- real estate appraisals with respect to the properties and projects included in this Information Memorandum, which may not reflect their actual market values because determining such values is an inherently subjective process;
- operating in a highly competitive industry;
- geographic concentration of our project portfolio in the Moscow Metropolitan Area; and
- control of the Nafta Moskva Group whose interests could conflict with those of the holders of ordinary shares in our share capital each with a nominal value of 62.50 Roubles (the “**Ordinary Shares**”).

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is subject and should be read in conjunction with the the information appearing under “*Risk Factors*”.

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER OPERATING DATA

The summary financial data provided below has been derived from the Audited Consolidated Financial Statements as of and for the year ended December 31, 2008, 2009 and 2010, which have been prepared in accordance with IFRS, and the Unaudited Consolidated Financial Statements as of and for the six months ended June 30, 2010 and 2011, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The financial information below includes certain non-IFRS measures used to evaluate our economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate the performance of our Group. Some of the selected operating data presented below (New sales contracts (PIK Share) and Total Completions) is extracted from our internal management accounts, which are not prepared in accordance with IFRS or Russian accounting standards and have not been audited by independent auditors.

See also “*Presentation of Financial and Other Information*” for important information about the financial information presented herein.

	For the year ended December 31,			For the six months ended June 30,	
	2008 <i>(restated)*</i>	2009 <i>(restated)*</i>	2010	2010	2011
	mln RUB				
<b>Consolidated statements of comprehensive income</b>					
<b>Revenue</b> .....	<b>33,695</b>	<b>41,175</b>	<b>38,090</b>	<b>15,126</b>	<b>22,794</b>
Cost of sales.....	(25,271)	(33,218)	(35,598)	(15,170)	(19,060)
<b>Gross profit</b> .....	<b>8,424</b>	<b>7,957</b>	<b>2,492</b>	<b>(44)</b>	<b>3,734</b>
Gain / (loss) on disposal of subsidiaries and development rights, net .....	-	(1,272)	368	-	-
Distribution expenses .....	(974)	(477)	(488)	(222)	(301)
Administrative expenses.....	(5,540)	(3,890)	(3,372)	(1,780)	(1,913)
Impairment losses and reversal of impairment loss .....	(24,028)	(4,671)	(1,106)	(613)	1,710
Other income and expenses, net.....	(300)	(391)	(373)	79	543
Finance income .....	481	771	325	211	2,403
Finance costs.....	(8,379)	(9,801)	(5,930)	(4,283)	(2,160)
Share of loss of equity accounted investees, net of income tax.....	(75)	(41)	(52)	(33)	-
<b>Loss before income tax</b> .....	<b>(30,391)</b>	<b>(11,815)</b>	<b>(8,136)</b>	<b>(6,685)</b>	<b>4,016</b>
Income tax benefit /(expense) .....	1,343	(866)	2,051	1,514	(830)
<b>Loss from continuing operations</b> .....	<b>(29,048)</b>	<b>(12,681)</b>	<b>(6,085)</b>	<b>(5,171)</b>	<b>-</b>
Profit from discontinued operations, net of tax.....	85	1,193	-	-	-

<b>Loss and total comprehensive income for the period</b> .....	<b>(28,963)</b>	<b>(11,488)</b>	<b>(6,085)</b>	<b>(5,171)</b>	<b>3,186</b>
Attributable to:.....					
Owners of the Company.....	(28,743)	(11,115)	(6,128)	(5,131)	3,181
Non-controlling interest.....	(220)	(373)	43	(40)	5

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

	As of December 31,			As of June 30,	
	2008	2009	2010	2010	2011
	(restated)*	(restated)*			
	<b>mln RUB</b>				
<b>Consolidated statements of financial position</b>					
Cash and cash equivalents .....	3,153	3,417	4,350	1,967	2,503
<b>Total assets</b> .....	<b>139,294</b>	<b>115,358</b>	<b>122,161</b>	<b>117,442</b>	<b>129,497</b>
Loans and borrowings, non-current .....	8,393	6,277	4,916	7,166	28,937
Loans and borrowings, current.....	31,742	32,013	39,062	35,030	16,095
<b>Total equity</b> .....	<b>15,867</b>	<b>4,343</b>	<b>(1,995)</b>	<b>267</b>	<b>1,191</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(restated)*	(restated)*			
	<b>mln RUB</b>				
<b>Consolidated Statement of Cash Flows</b>					
Cash flows from/(utilized by) operating activities.....	8,171	1,188	(4,816)	(3,957)	(5,574)
Cash flows from/(utilized by) investing activities.....	(21,903)	(697)	1,434	159	1,365
Cash flows from/(utilized by) financing activities.....	(127)	(227)	4,315	2,348	2,362

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

Non-IFRS Measures	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(unaudited) (restated)*	(unaudited) (restated)*	(unaudited)	(unaudited)	(unaudited)
	<b>mln RUB, except %</b>				
EBITDA <sup>(1)</sup> .....	(26,962)	(3,150)	(2,463)	(3,230)	5,029
EBITDA margin .....	(80.0)%	(7.6)%	(6.5)%	(21.4)%	22.1%
Adjusted EBITDA <sup>(2)</sup> .....	2,942	4,530	(829)	(1,739)	1,830

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

<sup>(1)</sup> Reconciliation of EBITDA to total comprehensive income/(loss) is as follows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(unaudited) (restated)*	(unaudited) (restated)*	(unaudited)	(unaudited)	(unaudited)
	<b>mln RUB</b>				
Total comprehensive income/(loss) for the period .....	(28,963)	(11,488)	(6,085)	(5,171)	3,186
Depreciation and amortization .....	1,076	860	759	383	339

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(unaudited) (restated)*	(unaudited) (restated)*	(unaudited)	(unaudited)	(unaudited)
	<b>mln RUB</b>				
Interest expense, including penalties payable.....	2,749	7,012	5,239	3,283	2,101
Interest income.....	(481)	(400)	(325)	(211)	(1,427)
Income tax expense .....	(1,343)	866	(2,051)	(1,514)	830
<b>EBITDA .....</b>	<b>(26,962)</b>	<b>(3,150)</b>	<b>(2,463)</b>	<b>(3,230)</b>	<b>5,029</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

(2) Reconciliation of Adjusted EBITDA to EBITDA is as follows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(unaudited) (restated)*	(unaudited) (restated)*	(unaudited)	(unaudited)	(unaudited)
	<b>mln RUB</b>				
EBITDA.....	(26,962)	(3,150)	(2,463)	(3,230)	5,029
Impairment (reversals) /losses.....	24,028	4,671	1,106	613	(1,710)
Impairment loss on financial assets.....	2,547	481	-	528	(15)
Forex loss.....	2,941	642	96	472	(894)
Share of loss of equity accounted investees....	75	41	52	33	-
(Gain)/loss on disposal of PP&E.....	80	(16)	(6)	(6)	4
(Gain)/loss on disposal of subsidiaries and development rights .....	-	(43)	(368)	(331)	-
Effect of termination long-term land lease agreements .....	-	-	(2,032)	(857)	-
Provision for doubtful accounts .....	127	1,666	595	-	-
Accrued penalties and fines.....	106	238	2,191	1,039	(584)
<b>Adjusted EBITDA <sup>(1)</sup> .....</b>	<b>2,942</b>	<b>4,530</b>	<b>(829)</b>	<b>(1,739)</b>	<b>1,830</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

(1) Adjusted EBITDA does not add back the effect of revision of social infrastructure costs of RUB 548 million for the year ended December 31, 2008 and RUB 4,181 million for the year ended December 31, 2010. See “Management’s Discussions and Analysis of Financial Condition and Results of Operations – Effect of revision of social infrastructure costs”

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	<i>NSA, thousand sq. m.</i>				
New sales contracts (PIK Share) <sup>(1)</sup> .....	520	123	392	159	229
Total completions <sup>(2)</sup> .....	813	884	739	245	354
Housing completions.....	621	732	375	81	299
Construction services completions .....	192	152	364	164	55
Transferred to customers (PIK Share) <sup>(3)</sup> ...	378	492	434	152	260

(1) Source: management accounts. This represents the net sellable area of housing for which sales contracts have been entered into with customers.

(2) Source: management accounts. This represents the net sellable area of housing, including housing constructed for federal and local authorities and other developers, accepted by the State Commission.

(3) Source: Consolidated Financial Statements. This represents the net sellable area of housing delivered to our customers for which the customer has signed an act of acceptance for the apartment.

## RISK FACTORS

*Any of the following risks, individually or together, could adversely affect our business, financial condition and results of operations. We have described the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties of which we are currently not aware or which we currently deem immaterial may also have an adverse effect on our business, financial condition and results of operations.*

### **Risks Relating to Real Estate Development**

*The Russian real estate market is cyclical in nature and, in the event of a reoccurrence of the recent economic downturn and the related deterioration of the Russian economy, our business, financial condition, results of operations and the value of our properties could be materially adversely affected.*

The Russian real estate market is cyclical in nature and is generally dependent on the state of the Russian economy, the growth of which also tends to be cyclical. Demand for real estate depends primarily on income levels and the general economic and financial situation in the Russian Federation. Our business, financial condition, results of operations and the value of the different types of properties related to our business activities may be materially adversely affected by the cyclical nature of the real estate market and the Russian economy in general.

The recent economic downturn has had a pronounced negative effect on the Russian economy, as evidenced by a decrease in GDP, a decline in foreign investment, severe liquidity constraints and a significant depreciation of the Rouble against the U.S. dollar and Euro. The severe economic downturn led to a reduction in the disposable income of the general population, a rise in the unemployment rate and, consequently, a reduction in demand for, and corresponding substantial declines in the values of, commercial and residential real estate. In addition, the economic downturn also affected the availability of mortgage financing for prospective purchasers of real estate, which led to a further decline in the general demand for real estate properties and an associated further erosion of their selling prices. As a consequence, the economic downturn has had a material adverse effect on the real estate development and construction sectors of the Russian economy. For a more detailed discussion of the developments in the industry, see “*Industry — Russian Residential Real Estate Market Overview*”. According to Rosstat, in 2009 as compared to 2008, total real estate construction in Russia decreased by 16%, the volume of completed housing by 6.7% and the volume of mortgage lending approximately by 77%. Decline in real estate prices resulted in a decrease of the Market Value of our real estate portfolio by 80.5%, from USD 12.3 billion as of January 1, 2008 to USD 2.4 billion as of January 1, 2011. These factors had a pronounced negative effect on our business, financial condition and results of our operations. Because of our revised strategy and cost cutting measures, our revenues and total loss in 2009, 2010 and during the six months ended June 30, 2011 show certain improvement over the 2008 results; however, they are still significantly lower than the 2007 results.

In late 2008, the Russian authorities began to implement financial assistance measures to support the national economy. These measures included assistance to Russian companies in the refinancing of their debt owed to foreign banks and other financial institutions, financial support to Russian banks aimed at encouraging lending, and various measures aimed at increasing internal demand. As part of the financial assistance measures, on December 25, 2008, the Special Commission of the Russian Government for the Increase of Sustainability of Development of the Russian Economy (the “**Commission for the Sustainable Development**”) released a list of approximately 300 companies of strategic importance to the Russian economy. In 2009, the Commission for the Sustainable Development issued state guarantees (the “**State Guarantees**”) as a security for debt incurred by Russian companies of strategic importance to the economy. We have been recognized as a company of strategic importance to the Russian economy, and a portion of our debt is currently secured by the State Guarantees. Also, we have been able to partially refinance our debt owed to foreign banks and other foreign financial institutions with proceeds of a bridge loan provided by the state corporation “The Bank of Development and International Economic Operations (Vnesheconombank)” (“**VEB**”). See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources — Debt restructuring completed in February 2011*”. However, there can be no assurance that these or other measures adopted by the Russian Government to ameliorate the effect of the recent economic downturn will result in a recovery of the Russian economy or our business, financial condition and results of operations.

Many of our development projects have been and may continue to be delayed as a result of the recent economic downturn and the resulting decrease in market demand and liquidity deficit. As a result of reduced market demand and insufficient levels of financing, construction works on several sites in Moscow slowed down in 2009. We resumed construction activity on these sites in the first half of 2010.

The adverse change in market and economic conditions required us to revise our business strategy. The prospects of our regional expansion significantly worsened during the recent economic downturn, which made us reconsider our plans for certain regional developments. We divested certain properties from our regional land bank, including several sites in St. Petersburg and properties in the Moscow Metropolitan Area, which were at the early stages of development. We also revised development plans for certain properties, including developments in Omsk, Yaroslavl and Perm. We plan to scale down our participation in these projects to the share that has already been paid for and to cancel our commitment to make additional payments. We have applied to the local authorities to obtain their consent to such revisions of our development plans. We have also applied for permissions to suspend development of certain properties for an indefinite period. As a result, the volume of unsold net sellable area of our portfolio of properties on June 30, 2011 decreased by 32% in comparison with April 1, 2009.

Although the real estate market in Russia has shown early signs of recovery since the second half of 2009, the extent and sustainability of the recovery remain uncertain. In the event of a reoccurrence or continuation of the recent economic downturn and the resulting deterioration of the Russian economy, the demand for properties, and particularly residential properties, could be directly and materially adversely affected. A decrease in demand for properties could result in a decline in construction activity and a related decrease in demand for construction materials. Consequently, in the event of a reoccurrence of the recent economic downturn and the related deterioration of the Russian economy, our business, financial condition, results of operations and the value of our properties could be materially adversely affected.

***Our revenues depend on a number of factors.***

We derive a substantial portion of our revenues from the sale of real estate properties in the Moscow Metropolitan Area and certain other regions of Russia. Our returns on these sales depend on overall levels of supply and demand in the marketplace, the selling prices that we are able to achieve and expenses incurred in the development and management of our properties. These factors and, consequently, our returns may fluctuate in response to a number of considerations, including the following:

- regional and local economic conditions;
- the cyclical nature of the real estate market;
- changes in customer preferences and perceptions as to the attractiveness, quality, comfort, safety and location of our projects and properties;
- the availability and cost of rental housing to our customers;
- the availability of mortgage and other financing for potential purchasers of our properties;
- the availability and cost of land and real property;
- the availability of new development projects offered by local and regional governments;
- the quality and proximity of competition presented by other residential real estate developers, which may diminish our opportunities for acquiring desired properties or sites on favorable terms or at all, as well as diminish our sales;
- the availability and costs of obtaining financing resources for our construction projects;
- changes in interest rates and inflation;
- failure to generate sufficient level of pre-sales to finance construction;
- unanticipated increases in development and other costs;
- changes in laws, regulations or government policies (including those relating to health and safety and environmental compliance), which increase the costs of complying with such laws, regulations or policies;
- increases in real estate taxes and other statutory charges;

- the supply of, and the price for, construction materials (especially those not produced by us and prices of which are therefore are not naturally hedged, such as cement), energy and other utilities in Russia;
- the bankruptcy or insolvency of contractors and other counterparties; and
- the long time period between planning and completion of our projects.

Any or all of these factors could materially adversely affect our business, financial condition and results of operations.

***We are subject to numerous development, construction and investment risks inherent in real estate development.***

Our principal activity is the development of properties and the construction of buildings for sale. The development of properties involves general investment risks, including the risk that the assumptions, estimates and valuations related to the land we acquire and projects we intend to develop may prove inaccurate (including the assumptions and estimates relating to the possible uses of properties or the viability of certain projects). Construction and development activities are time consuming, require significant financial investments, and involve establishing and maintaining important business relationships with various parties, including suppliers, subcontractors, utility service providers and potential purchasers.

Our real estate investments may also decrease in value. Mainly because of the deterioration of the Russian real estate market resulting from the recent economic downturn, the Market Value of our real estate portfolio decreased by 80.5% from USD 12.3 billion as of January 1, 2008 to USD 2.4 billion as of January 1, 2011. As of June 30, 2011, the Market Value of our real estate portfolio was USD 2.7 billion. The Market Value could decline further as a result of adverse changes in macro-economic conditions or otherwise. In such case, the sale price of properties scheduled for development on land that we own or lease would be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations.

Moreover, although as part of our normal course of business we research, conduct valuations and market studies and verify legal and technical requirements of the properties we intend to acquire for our development projects, we can give no assurance that properties we have acquired will not be subject to material risks that were not apparent at the time of acquisition, including, without limitation, environmental risks and legal restrictions. Further, we cannot give any assurance that the assumptions on which the valuations are based were accurate at the time they were made or will continue to be accurate. These risks could cause the value of our properties to decline, lead to claims for damages, require us to incur significant additional costs or, in some circumstances, require us to delay or cease development on such properties, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Our projects may be subject to delay, non-completion and financial loss.***

Our projects are at various stages of development. According to the Valuation Report, as of June 30, 2011, approximately 0.2% of the portfolio's total unsold net sellable area comprised properties held as investment, 29.4% comprised properties in the course of development and 70.4% comprised properties held for development. Property developments typically require substantial capital outlays during construction periods, and it may take months or years before positive cash flows, if any, can be generated by pre-sales of properties to be completed or sales of completed properties. Real estate development, construction and acquisition activities are subject to significant risks of delay, non-completion and financial loss due to, among other factors:

- changing market conditions, which may result in diminished demand for developed properties and lower than expected sale prices;
- impossibility due to legal regulation or our failure to generate sufficient level of pre-sales to finance construction;
- potential inability to obtain or renew land lease rights from governmental authorities;
- budget overruns and completion delays with respect to real estate development projects;
- potential inability to obtain financing on favorable terms or at all;



- potential delays or refusals in obtaining all necessary land use, building, occupancy and other required governmental permits and authorizations, as well as delays or refusals in execution of investment contracts with local and regional authorities;
- potential title or other defects in acquired land plots and acquired or developed properties, including latent defects that may not reveal themselves until many years after we develop a property;
- potential liabilities relating to acquired land, properties or entities owning properties for which we may have limited or no recourse;
- compulsory sale of developed properties to the Russian federal government or a regional government triggered by government infrastructure development plans;
- obligations for the development of adjacent properties and the relocation of tenants and owners of properties to be demolished and/or redeveloped;
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Russia, as well as social obligations;
- restrictions and encumbrances in land leases, as well as provisions governing the assignment or disposal of land lease rights or other provisions affecting property value;
- inability to fulfill the terms of investment contracts;
- potential liabilities relating to warranties and guarantees given by us for the quality of construction work performed subsequent to the date on which the project was transferred to the customer, generally for a period after the transfer of up to three years for construction works and five years for constructed buildings;
- limited availability of energy and other utilities and adequate transportation infrastructure;
- potential inability to dispose of our investments on acceptable terms or at all;
- changes in laws and governmental regulations and tax laws or the interpretation or application thereof;
- changes in town planning and zoning regulations or the interpretation or application thereof; and
- possible industrial accidents, deterioration of ground conditions (e.g., presence of underground water), and potential liability under environmental laws (e.g., for soil and site contamination, air contamination and contamination of adjacent areas and the use of hazardous substances, etc.) and other laws.

The occurrence of one or more of these factors could materially adversely affect our business, financial condition and results of operations.

We focus primarily on developing large-scale residential complexes rather than single buildings. The complexity and scale of these projects may increase the risk of failure to complete such projects within our projected timetables or projected budget compared to projects that are less complex.

In addition, if our construction processes are delayed or disrupted, our reputation may be negatively affected. We may face interruptions due to human error in the operation of machines, power outages, weather and natural disasters or other occurrences that have an impact on the productive availability of machines, material or manpower. Difficulties encountered in the construction process can reduce production yields or interrupt production and may make it difficult for us to complete projects on time or in a cost-effective, competitive manner. Any inability to complete our projects, deliver our products or perform our services on time or at a competitive cost could result in our incurring contractual penalties and could negatively affect our reputation in the market, which could deter customers from purchasing our products and services and in turn have a material adverse effect on our business, financial condition and results of operations.

## **Risks Relating to Our Business**

***We have significant indebtedness and may be forced to dispose of some of our development projects to meet our repayment obligations as they fall due.***

We have significant indebtedness owed to banks and other third parties. As of June 30, 2011, the amount of our non-current and current loans and borrowings was RUB 45,032 million. As of June 30, 2011, our debt to equity ratio was 38.5 (our debt to equity ratio is calculated by dividing the sum of current and non-current loans and borrowings by total equity), which is higher than the corresponding ratios of some of our competitors. In order to secure some of these financings, we have pledged a substantial portion of our land, buildings, machinery and equipment as well as shares in our operating subsidiaries. Moreover, the Investment Group “Nafta Moskva” (the “**Nafta Moskva Group**”) has pledged some of the Ordinary Shares indirectly held by it in order to provide additional security to certain of our lenders, including VTB and Binbank. For a detailed description of the assets pledged under our existing credit facilities, see “*Material Contracts – Major Credit Agreements.*”

Our significant level of indebtedness may (1) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (2) place us at a competitive disadvantage relative to our competitors with less indebtedness; (3) lead to a partial or complete loss of control over some of our property or the businesses operated by affected subsidiaries; (4) render us more vulnerable to general adverse economic and market conditions; (5) require us to dedicate substantially all or a significant portion of our cash flow to service our debt and (6) lead to the transfer of title to some of our Ordinary Shares from the Nafta Moskva Group to our lenders.

During the twelve months ending June 30, 2012 RUB 16,095 million of our outstanding indebtedness is expected to fall due. We have performed a worst-case scenario assessment of our capital requirements for the twelve-month period ending June 30, 2012 on the basis of the following assumptions:

- we fail to refinance our existing debt which needs to be repaid during the twelve-month period ending on June 30, 2012 and will be required to repay the outstanding loans and the related interest; and
- no new credit facilities become available to us; and
- we do not obtain any equity financing.

The analysis showed that the net inflows from operating activities which we expect to receive during the twelve-month period ending June 30, 2012 will not be sufficient to timely repay our loans when they fall due. If the worst-case scenario on which we based our analysis materializes, we would seek to dispose of the projects Mantulinskaya Street 7 (Moscow) and Kommunarka Village (Leninsky District, Moscow region). The combined carrying value of these projects in our Unaudited Consolidated Financial Statements as of June 30, 2011 amounted to RUB 12,700 million. We estimate that in the event of a forced sale we would be able to sell these projects for a consideration of RUB 12.0 billion to RUB 15.0 billion, which represents approximately 80 to 100% of their fair market value as determined in the Valuation Report.

Even if actual conditions turn out to be more favorable than the assumptions underlying our assessment of capital requirements, our ability to make timely repayments of our outstanding indebtedness will depend upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which we cannot control. If our cash flow from operating activities is insufficient to service our debt, we could be forced to take certain actions, including delaying or reducing capital or other expenditures in an attempt to restructure or refinance our debt, selling our assets or operations or raising additional equity capital. We might be unable to take any of these actions on favorable terms, in a timely manner or at all. Furthermore, such actions might not be sufficient to allow us to service our debt obligations in full, which would put us in default and entitle our lenders to foreclose on the assets pledged to them, which would have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us.***

Our credit agreements with lenders contain a number of restrictive covenants, the more significant of which are summarized below. For further details, see “*Material Contracts—Major Credit Agreements.*” Non-compliance with such restrictive covenants may result in default under one or more of our credit facilities and acceleration of our debt, which would in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

*Financial covenants.* Our credit agreements with Sberbank require us to maintain the ratio of our consolidated net debt to our EBITDA (as defined in each credit agreement) below certain thresholds; our credit agreements with Morgan Stanley and

Nomura require us to maintain the ratio of our EBITDA (as defined in each credit agreement) to our interest expense above specified thresholds.

*Cross-default and cross-acceleration clauses.* A number of credit agreements, including the agreements with Sberbank, VTB, Bank Zenit, Morgan Stanley, Nomura and Garanti Bank, entitle the lenders to declare indebtedness owed to them immediately due and payable if, among other things, we have any overdue debt or are late making other payments due from us in amounts exceeding specified thresholds.

*Other restrictions.* Several credit agreements impose restrictions on our ability to incur additional debt without consent of the relevant lender. In particular, the credit agreement with Sberbank requires that we seek consent of the bank for each borrowing in an amount exceeding the specified threshold. The credit agreement with VTB requires us to obtain the lender's approval, if the total amount of all borrowings for a year exceeds the amount specified in the agreement. The credit agreements with Morgan Stanley and Nomura impose certain limitations on borrowings of our subsidiaries and secured borrowings.

The credit agreements with our lenders contain a number of other restrictive provisions. A number of credit agreements, including the agreements with Rosbank, entitle the lenders to declare indebtedness owed to them immediately due and payable if the total amount of litigation claims against us exceeds the permitted limits. Bankruptcy or liquidation of certain of our subsidiaries could trigger adverse consequences under certain of our loan agreements, which could have a material adverse effect on our business, results of operations, financial condition and prospects. Additionally, some of our loan agreements provide the relevant bank with a general right to demand early repayment of the loan where circumstances arise that, in the reasonable opinion of the bank, may prevent the relevant member of our group from meeting its payment obligations in full or in a timely manner.

As a result of severe liquidity constraints due to the recent economic downturn, we failed to make timely repayments of our debt in 2009 and breached various financial and other covenants in our credit facilities in 2009 and 2010, including some of the covenants described above. We have addressed these defaults by entering into amendment agreements, obtaining waiver and no-intent letters from the lenders and refinancing our overdue debt. However, the waiver and no-intent letters are not legally binding under Russian law. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources — Capital Resources.”*

In September 2011, a bankruptcy claim was filed against us by a creditor due to our failure to timely pay legal fees in the amount of RUB 200,000. For a detailed discussion of the bankruptcy claim, see *“Business—Legal Matters”*. Our credit agreements with Morgan Stanley, Nomura, Sberbank, VTB, Binbank, Rosbank, Garanti Bank and the Bank of Khanty-Mansiysk contain event of default provisions related to the commencement of bankruptcy proceedings against us. See *“Material Contracts—Major Credit Agreements”* for a description of our credit facilities and *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources —Loans and Borrowings”* for information regarding amounts outstanding under our credit facilities.

The bankruptcy claim constituted an event of default under our credit agreements with Morgan Stanley and Nomura. We have not received waivers from Morgan Stanley and Nomura and there is no assurance that we will receive them. Accordingly, either or both of these lenders are entitled to accelerate payment of these credit facilities and foreclose on the assets pledged under them.

The commencement of bankruptcy proceedings against us also constituted an event of default under our credit agreements with VTB and Binbank and may have constituted an event of default under our credit agreements with Sberbank and Garanti Bank. We have obtained letters from Binbank and Sberbank, and an email from VTB, indicating that such banks as of the dates of their respective letters (or email) had no intent to demand immediate repayment of the debt owed to them based on any defaults arising from the bankruptcy claim. However, we cannot give any assurance that these lenders will not change their intention or would not prevail in court if they demanded immediate repayment of the debt notwithstanding the letters or email as the letters and email are not legally binding in Russia.

We believe we have reasonable grounds to argue that no default occurred under our credit facilities with Rosbank and the Bank of Khanty-Mansiysk as a result of the bankruptcy claim. To mitigate the risk that these banks take a different position with respect to the interpretation of the relevant provisions in the credit agreements, we obtained letters from them indicating that as of the date of their respective letters they had no intent to demand immediate repayment of the debt based on any potential defaults arising from the bankruptcy claim. However, we cannot give any assurance that these lenders will not change their

intention or would not prevail in court if they demanded immediate repayment of the debt notwithstanding the letters as the letters are not legally binding in Russia.

If some or all of our lenders accelerated payment under our credit facilities, we would not have sufficient liquidity to repay them. Many of our lenders have the benefit of security. For a description of the assets pledged under our credit agreements, see “*Material Contracts—Major Credit Agreements*”. If one or more of our lenders sought to accelerate indebtedness owed to it, our other indebtedness may in turn be accelerated.

In addition, we were not able to comply with some of the covenants in our loan agreements in the past and we may not be able to do so in the future, which could make these loans immediately due and payable. The acceleration of our debt would materially adversely affect our business, financial condition and results of operations.

***Our business is capital intensive; if we are unable to obtain adequate capital, we may not be able to fund our working capital and capital expenditure requirements and may have to limit our operations substantially.***

Real estate development is a capital intensive business. We have significant ongoing liquidity and working capital requirements in order to fund and maintain our current level of operations. Moreover, fixed costs, including maintenance costs of our production facilities and debt service payments, represent a large portion of our costs, making our profitability dependent on a constant level of sales and uninterrupted operational cash flow.

We have historically financed our capital requirements from cash provided by a range of sources, but principally from our operations and bank loans. Pre-sales of apartments in a building constitute a primary source of funding for the construction of such building. Our sales and operational cash flow, to a large extent, depend on a number of economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Moreover, as a result of recent legislative changes, we are no longer able to receive funds as advances from potential purchasers of our housing prior to obtaining the construction permit, and as a result, we must seek other sources of funding for our working capital needs. See “*Risk Factors — Risks Relating to Our Business— We are reliant on pre-sales to finance our development projects and our ability to pre-sell apartments may be materially adversely affected by changes in laws regulating residential construction.*” We cannot assure you that we will have sufficient cash flow available for land acquisitions or property development or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments.

We have in the past needed, and may in the future need, to attract equity or debt financing in Russian and international capital markets to fund the working capital and capital expenditure requirements of our business, including the acquisition of land or properties for development. We have significant indebtedness owed to banks and other financial institutions and our ability to incur additional debt is limited by financial and other covenants in our credit agreements. Moreover, our EBITDA was negative based on the Audited Consolidated Financial Statements for 2008, 2009 and 2010, and our equity amounted to 1,191 as of June 30, 2011, which increased the cost of new borrowings for us. Debt financing in Russia, particularly long-term debt financing on commercially acceptable terms, has been and may continue to be generally difficult to obtain. We also may not be able to borrow on the international capital markets on acceptable terms or at all in the future.

Our ability to obtain equity financing in the amounts sufficient to meet our financial needs could be adversely affected by many factors, which may be beyond our control, including, but not limited to, global and domestic economic conditions, the health of the Russian securities market and regulatory developments. For example, the recent economic downturn has adversely affected international equity markets and prices of equity securities. Equity markets of developing economies, such as the Russian economy, are more volatile than equity markets of developed market economies. Key Russian equity market indexes, Closed Joint Stock Company MICEX Stock Exchange (the “**MICEX**”) and Open Joint Stock Company Russian Trading Systems Stock Exchange (the “**RTS**”), decreased by 44.6% and 57.2% from 1,753.7 and 2,303.3 as of June 30, 2008 to 971.6 and 987 as of June 30, 2009, and increased by 73.7% and 79.4% to 1,688.0 and 1,770.3 as of December 31, 2010, respectively. As of June 30, 2011, the MICEX index decreased by 1.3% to 1,666.6 and RTS index increased by 7.7% to 1,906.7, respectively. Such volatility may have a material adverse effect on our ability to obtain equity financing on acceptable terms or at all.

The issuance of additional equity securities by us may require consent of our shareholders, including major shareholders, who may experience significant dilution as a result of an offering of additional equity securities to outside investors. We may not be able to procure the required consents of our shareholders and may not be able to obtain equity financing as a result. See also “*Risk Factors — Risks Relating to Our Business— We expect to remain under the control of the Nafta Moskva Group.*” In addition, our ability to raise equity capital by issuing Ordinary Shares in the form of GDRs is limited. Our current Federal Service for the Financial Markets of the Russian Federation (the “**FSFM**”) permissions allow only 172,641,131 Ordinary

Shares to be deposited into our GDR program. As of August 31, 2011, we had 170,013,192 Ordinary Shares deposited into our GDR program. Accordingly, unless the FSFM regulations are changed, our ability to raise equity in the future through sales of Ordinary Shares in the form of GDRs is extremely limited. The limitation on the number of Ordinary Shares that can be in the form of GDRs may make it more difficult for us to raise equity capital from investors in the international markets in the future.

Any of the foregoing factors may reduce our access to capital resources and compel us to utilize less efficient financing options for the construction of new housing before apartments are sold to customers, which may include block sales of apartments at an early stage of construction at a deep discount. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition and results of operations.

***We have weaknesses and deficiencies in our internal controls and we have in the past had a lack of focus on some of our continuing obligations as a London-listed company.***

Our Group has grown largely through acquisitions, and today consists of numerous operating companies that function day to day on a decentralized basis. Each of our subsidiaries prepares separate financial statements under Russian accounting standards for statutory purposes. We do not have a fully integrated information system for the preparation of IFRS financial statements. The preparation of our IFRS financial statements is a semi-manual process with certain automated elements that involve, first, the transformation of the statutory financial statements of our subsidiaries into IFRS financial statements through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming. It requires significant attention from our senior accounting personnel and may increase the likelihood of errors in our financial statements. Moreover, the complexity of the process of IFRS financial statements preparation makes it challenging for us to comply with changing IFRS reporting requirements, including new requirements that apply to the presentation of operating segments.

In common with many Russian companies, we have several weaknesses and deficiencies in our internal controls. Based on a broad review undertaken by our board of directors and management in 2011, we have identified a number of principal weaknesses and deficiencies in our financial reporting procedures and wider internal controls. Following this review, our management has devised an action plan intended to address the weaknesses and deficiencies identified. The principal weaknesses identified during our review, and the remedial measures that have been recommended by our management, are as follows:

- An absence of analysis or reconciliation of deviations between construction projects' budgets and book records, coupled with a lack of control over the maintenance of budgets. To address this weakness, we plan to adopt a project management practice for Moscow projects, projects in the Moscow region and regional projects. This system is intended to address both target and actual revenue and expenditure and project implementation deadlines. In addition, our Investment Committee would perform an analysis of deviations with respect to the budgets of all Moscow projects, projects in the Moscow region and regional projects on a quarterly basis.
- An absence of budgets for projects in which the Group acts as general contractor. To address this weakness, we plan to start management accounting for projects under federal, municipal, and commercial contracts similar to the management accounting undertaken for investment and development projects. These projects would undergo quarterly deviation analysis in terms of revenues, expenditures and project implementation deadlines.
- A lack of centralized control over itemized book records necessary to ensure a reliable basis for the calculation of various elements of revenue and net costs for IFRS reporting purposes. In particular, weaknesses were identified in our reporting procedures for expenses relating to completed construction projects and in the review procedure for the inspection of houses recognized as part of IFRS revenue. To address the weaknesses in our controls over our IFRS itemized book records generally, we plan to implement procedures which we believe would help ensure the accurate reconciliation of our bookkeeping procedures with our managerial accounting systems. In addition, we plan to implement mechanisms that would enable the Group to control the closure process to minimize the post-closure changes that are required to the ledgers of individual Group entities. In respect of the procedure for the inspection of houses, we plan to implement a renewed procedure which would involve both our IFRS Department and employees of the financial unit of the Department of Financial Planning and Analysis.
- A lack of procedures for reconciliation of the managerial accounting book records and the IFRS accounting records, resulting in delays in preparing consolidated IFRS financial statements, including segmental reports and weaknesses in our tax function. To address the weaknesses related to reconciliation, we plan to implement, within the next 12

months, an integrated IT system for the preparation and consolidation of management and IFRS reporting data designed to deliver faster and clearer visualized management reports. We also plan to establish a methodology of managerial accounting throughout the Group, which includes periodic IFRS reconciliation and formal allocation of responsibility for various aspects of the reconciliation process. In addition, we intend to implement terms of reference for the automation of the intercompany accounts reconciliation process and we are currently selecting a contractor to implement the reconciliation mechanism. We also plan to re-assess our management reporting policies that would help ensure a more rigorous ‘line by line’ conformity to IFRS. We expect this re-assessment to begin in 2012 following the implementation of the integrated IT system for IFRS reporting. In relation to the weaknesses in our tax function, we intend to acquire additional resources to assist with our tax functions. In addition, we also intend to implement a Group-wide tax impact analysis during 2012. Based on this impact analysis, we intend to develop Group-wide tax policies.

- Weaknesses in the functioning of our Audit Committee and Internal Audit Department. To address this, we plan to undertake an analysis of our business processes to ascertain our existing risk framework and the adequacy of our controls. We plan to develop an internal audit plan for 2012 based on the risks identified during this process, which will cover measures aimed to improve our overall corporate governance.

In addition to the weaknesses we have identified during the course of audit, we have undertaken a broader review of our (i) corporate governance; (ii) corporate structure; (iii) financial performance, monitoring and reporting; (iv) risk management, treasury and compliance; (v) technology and (vi) external communications. As well as the corporate governance weaknesses and the measures to help deal with those weaknesses that we have described in *“Directors, Management and Corporate Governance—Continuing Obligations and Compliance”*, we have identified an absence of a formalized risk management process. To address this weakness, we expect that our Audit Committee will revise our Group risk matrix, and update our risk management policies at both the Group level and subsidiary level before the end of 2011. Our Internal Audit Department would test the implementation of the new policy during 2012. In addition, we plan to implement a system of regular reporting to our Audit Committee on risk management status.

We also plan to formalize our Group-wide policies relating to Russian Accounting Principles, which were not previously formally documented.

Our management has identified these remedial actions for further consideration by our Audit Committee. Our Audit Committee has considered our plan, and has appointed officers responsible for the implementation of the specific items in the plan. We expect our Audit Committee to make a formal recommendation of our plan to the Board of Directors in due course. Accordingly, the remedial measures set out above are subject to potentially significant change.

We believe it is likely that certain of these weaknesses identified were contributory causes to the errors that led to the need for restatements in our financial statements for the years ended December 31, 2008 and December 31, 2009 and the qualification to the audit opinion included in this Information Memorandum. See *“Selected Consolidated Financial Information and Other Financial Data – Restatements”* and *“Presentation of Financial and Other Information—Qualification”*. Specifically, we believe the principal factors that led to the need to make restatements in our financial statements were inadequate and disintegrated information systems, insufficient internal controls over the preparation of IFRS financial statements and insufficiently qualified IFRS personnel. In addition, we believe that the principal factor that led to the qualification in our audit opinion in respect of the year ended December 31, 2009 was the absence of a procedure to collate information to help determine if a transaction is a related party transaction. We are now in the process of implementing a procedure to help collate such information and deal with transactions that might be related party transactions. See *“Directors, Management and Corporate Governance—Related Party Transactions Systems and Procedures”*.

As described above, we have taken, and plan to continue to take, steps to further strengthen our accounting systems and internal controls. Despite the steps we are taking to address these issues, we may not be successful in remedying these deficiencies or preventing future deficiencies. If we are unable to remedy these deficiencies, we may not be able to prevent or detect a material misstatement of our annual or interim IFRS financial statements, and the process of preparing our annual or interim IFRS financial statements may be subject to delays. Failure of our group-wide management controls and processes to ensure proper oversight, reporting and control of our operations could have a material adverse effect on our business, results of operations, financial condition and prospects.

While a detailed historic review has not been carried out, we have been advised that we have shown a lack of focus on compliance with some of our continuing obligations as a company with a standard listing of GDRs on the London Stock Exchange (the “LSE”). In particular, we have been advised that we need a greater focus on compliance with our obligations

under Disclosure and Transparency Rule 2 (“**DTR 2**”) with regard to announcements to the market of price sensitive information. We have taken this advice seriously and have undertaken a number of steps and measures in order to ensure that we are in compliance with our applicable obligations in the future. In particular, we have implemented a formal disclosure committee. See “*Directors, Management and Corporate Governance.*”

With regard to any historical non-compliance that we may be found to have committed, we are at risk of sanctions by the Financial Services Authority (the “**FSA**”). If the FSA considers that an issuer has breached any continuing disclosure requirements, it may impose an unlimited financial penalty, publish a statement censuring the issuer or suspend or discontinue the listing of the company’s GDRs. While we are not aware of any decision by the FSA to take an enforcement action against us, such action cannot be ruled out.

***Our Consolidated Financial Statements have historically been subject to restatements and qualifications***

Our Consolidated Financial Statements have historically been subject to restatements and qualifications, which expose certain weaknesses that have been identified in our financial reporting procedures.

*Restatements*

The Audited Consolidated Financial Statements in respect of the years ended December 31, 2008 and 2009 have been re-issued to illustrate the effect of restatements of certain items in these financial statements as follows:

- Presentation of long-term loans and borrowings

As of December 31, 2009, we were in breach of certain covenants contained in a credit agreement with Sberbank. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Current status of our credit facilities*”. This credit agreement was classified as long term loans and borrowings at December 31, 2009, as it matures after December 31, 2010, and informal arrangements were in place with Sberbank not to demand early repayment of this loan as a result of our continuing breaches. However, due to the nature of the arrangements in place with Sberbank, we were required under IAS 1 *Presentation of Financial Statements* to classify the liability under this credit agreement as current. We have modified the presentation of these balances in the comparative information as of December 31, 2009 contained within our Consolidated Financial Statements as at and for the years ended 31 December 2010, 2009 and 2008.

See “*Selected Consolidated Financial Information and Other Operating Data—Restatements—Presentation of long-term loans and borrowings*”.

- Revision of construction costs for certain completed projects

During 2010, we completed certain legal procedures for the state registration of titles for certain residential properties, the revenue generated by which was recognized in the consolidated financial statements for 2006-2008. On completion of the state registration procedures, we performed a reconciliation of the total actual costs incurred to the estimate of the costs recognized in the consolidated financial statements for 2006-2008. As a result, we identified that certain costs and related tax effects had not been included in the estimates included in the 2006-2008 consolidated financial statements. We have adjusted the relevant balances as of January 1, 2009 and December 31, 2009.

See “*Selected Consolidated Financial Information and Other Operating Data—Restatements—Revision of construction costs for certain completed projects*”.

The adjustments described above were reflected in the Audited Consolidated Financial Statements as at and for the years ended December 31, 2010, 2009 and 2008.

*Qualification*

In 2009, we entered into a number of transactions with an entity for which indications exist that it may be a related party. At the time of the transactions and when the audit report and the Audited Consolidated Financial Statements were issued, we were unable to identify the beneficial owners of this entity to determine whether these transactions, comprising the accrual of interest expense and related penalties of RUB 1,130 million, the repayment of a loan of RUB 1,969 million and the sale of a subsidiary for a consideration of RUB 2,077 million, were related party transactions. As a result, our auditors were unable to satisfy

themselves as to whether the entity in question was a related party. Accordingly, they were unable to determine whether the disclosure of related party transactions and outstanding balances as at and for the year ended December 31, 2009, which is required to be disclosed by IAS 24 *Related Party Disclosures*, was complete. Our auditors' opinion on the consolidated financial statements as at and for the year ended December 31, 2009 was qualified accordingly.

It is the opinion of our external auditors that, except for the possible omission of the disclosure described in relation to the qualification above, our Consolidated Financial Statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, December 31, 2009 and December 31, 2008 and its financial performance and its cash flows for the years then ended in accordance with IFRS. See the independent auditors' report on our Consolidated Financial Statements, which are attached to this Information Memorandum as Annex A. However, we currently have several weaknesses and deficiencies in our financial reporting procedures (see "*We have weaknesses and deficiencies in our internal controls and we have in the past had a lack of focus on some of our continuing obligations as a London-listed company.*"). Consequently, there can be no guarantee that our financial statements will not be subject to restatements and qualifications in the future, which may in turn have a material adverse effect on our business, results of operations, financial condition and prospects.

***We are reliant on pre-sales to finance our development projects and our ability to pre-sell apartments may be materially adversely affected by changes in laws regulating residential construction.***

We finance a significant portion of our construction projects by receiving funds from pre-sales of apartments prior to the completion of construction. As of December 31, 2008, 2009 and 2010 and June 30, 2011, advances from customers, which represented prepayments for apartments and commercial premises made under sales contracts, were RUB 34,849 million, RUB 26,448 million, RUB 29,949 million and RUB 39,457 million, respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.*"

Russian Federal Law No. 214-FZ "On Participation in Cost Sharing Construction of Apartment Buildings and Other Real Estate," which came into effect in April 2005 (the "**Cost Sharing Law**"), prohibits developers from raising funds from private individuals prior to (i) obtaining a construction permit, (ii) publishing a project declaration (summary information on the developer and its project), and (iii) having registered its rights to the land plot intended for construction, unless one of the exceptions set out in the Cost Sharing Law applies. The Cost Sharing Law also offers statutory protection to individuals who purchase pre-sold properties directly from a developer. Where a purchaser pays for a property that is yet to be completed, the purchaser automatically becomes, by law, a pledgee of a part of the land plot and the construction in progress proportional to the purchaser's investment, which limits our ability to attract secured project financing to fund the construction costs. See "*Regulation of Real Estate in Russia — Residential Construction — Financing and Sale.*"

Many developers, including us, made use of certain financial arrangements not expressly provided for in the Cost Sharing Law, which allowed them to receive funds from potential purchasers of residences at various early stages of the construction process. However, Russian Federal Law No. 119-FZ "On Amending the Federal Law On State Registration of Real Property and Transactions Therewith and Certain Other Legal Acts of the Russian Federation," which came into effect in June 2010, expressly restricted developers' right to use any financial arrangements other than those expressly permitted by the Cost Sharing Law. We believe that such alternative financial arrangements that were entered into before the amendments to the Cost Sharing Law became effective were in compliance with Russian law then in effect; therefore, we believe that they remain legally binding and enforceable. However, the amended Cost Sharing Law prevents us from entering into such alternative financial arrangements with new customers. Moreover, we cannot give any assurance that our current and previous arrangements are free from possible challenge and that such arrangements will not be found to be in violation of the Cost Sharing Law. If the alternative financial arrangements are found to be in violation of the Cost Sharing Law, we may be subject to administrative fines and, upon the claim of the investors or owners of apartments who participated in such arrangements, we would be required to return funds (together with interest) to such investors or owners of apartments in exchange for their return of the relevant apartments. This may have a material adverse effect on our business, financial condition, results of operations and prospects.

We have implemented an alternative financial arrangement that is expressly permitted by the Cost Sharing Law, which allows us to receive funds from potential purchasers of residences prior to obtaining a construction permit. In particular, to assist private individuals who intend to invest in our development projects, we establish a housing construction cooperative (the "**Cooperative**"). Upon formation of the Cooperative, private investors become its members and contribute their funds to the Cooperative, which, in turn, invests received funds in construction on the basis of co-investment agreements. Investments made by the Cooperative are not subject to regulation by the Cost Sharing Law. Using the Cooperative as an investment vehicle is



more complicated than the arrangements that we utilized before the amendments to the Cost Sharing Law came into effect. Such investment arrangements are associated with additional legal risks and costs related to management of the Cooperative.

In addition, every member of the Cooperative has an unconditional right to withdraw from the Cooperative at any time and receive a refund of the entire amount of his/her investment within a certain period, specified in the charter of the Cooperative, after the filing of an application for the withdrawal. The common length of such period is about six months. A duty to refund the contribution made by a member of the Cooperative may result in an unanticipated increase of our working capital needs. Our failure to effectively implement and utilize these new financial arrangements may reduce our access to capital resources. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that the Government will not adopt more stringent laws and regulations in the future, or more stringent interpretation of existing laws and regulations with respect to the real property industry and pre-sales, in particular. If we fail to adapt our operations to new laws and regulations that may come into effect from time to time, or more stringent interpretation of existing laws and regulations with respect to the real property industry, such changes may disrupt our business or cause us to incur additional costs, and our business, financial condition and results of operations may be materially and adversely affected.

***The success of our property development business strategy and profitability depends heavily upon our ability to locate and acquire land suitable for development at attractive prices and upon favorable terms and conditions.***

Our historical growth and profitability have been attributable, in part, to our ability to locate and acquire land at attractive prices and on favorable terms and conditions, and the success of our business strategy and future profitability depends upon our continued ability to do so. In the past, we have been able to acquire sufficient land suitable for our developments. There can be no assurance, however, that we will continue to be able to identify and acquire sufficient sites in the future at attractive prices or on favorable terms and conditions. In addition, we also face the risk that competitors may anticipate certain potential investment opportunities and exploit them ahead of us. Any inability to identify and acquire sufficient sites for our land reserves at commercially acceptable prices, terms and conditions could have a material adverse effect on our business, financial condition and results of operations.

***The limited availability, quality and reliability of market data create uncertainty as to property values and market conditions.***

The real estate market in Russia is characterized by a limited amount of publicly available data and independent research compared to certain other industrialized countries. A small number of private organizations have begun to publish statistical and other research data with respect to the Russian real estate market. Primarily due to the relatively short period of time for which such data has been collected and published, such data is significantly narrower in scope and tends to be less consistent than the data relating to certain other industrialized countries, and it may be difficult to analyze market trends and conditions over time or at all. The relative lack of such data makes it more difficult to assess the market values of real estate in Russia than in, for example, Western Europe.

This restricts our ability to forecast market prices, property-related costs and property values. In connection with our acquisition of land for our real-estate development segment, we base our purchase price in part on estimates of the anticipated returns on our investment. Any failure to forecast accurately such values and prices could result in lower profits and have a material adverse effect on our business, financial condition and results of operations.

***Acquisition of land plots or development rights from third parties may be costly or unsuccessful.***

We may acquire land plots or development rights from third parties. Such acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of properties, as well as the potential improvements needed to increase financial returns. In particular, there can be no assurance that unanticipated problems (such as changes in laws, or the interpretation or application thereof, relating to the ownership or use of real estate, defects in title to such real estate acquired by us, as well as limited ability to insure against such events in Russia) and undisclosed liabilities or contingencies (such as the existence of hazardous substances or other environmental liabilities) will not arise with respect to the acquired properties or that the acquired properties will achieve, upon completion of the relevant development project, the anticipated sales, rental rates or occupancy levels factored into the pricing of such acquisitions.

When making acquisitions, we seek to obtain appropriate contractual protection. However, we cannot guarantee that we will be able to obtain comprehensive protection, nor can we guarantee the adequacy and enforceability of such protection (to the extent obtained). If our contractual protection is not sufficient to protect us from any liabilities of acquired entities or encumbrances of acquired properties, levels of profitability of any relevant investment may be substantially lower than our forecasts, negatively affecting our business, financial condition and results of operations.

In addition, the development site in Kuntsevo, Moscow that we have acquired from the Moscow Government comprises Soviet-era residential buildings planned for demolition pursuant to recently adopted zoning regulations. In accordance with investment contracts entered into with the Moscow Government, costs associated with the relocation of current residents and the demolition of existing buildings are borne by the city of Moscow. However, the process of relocating existing residents is and may be in the future subject to unexpected delays, which could result in corresponding delays in the completion of our development projects.

We may also acquire for development existing residential, office or retail buildings that have existing tenants under short-term lease agreements or under unregistered long-term lease agreements. In so doing, we may acquire lease liabilities and obligations that pass to a new owner of the encumbered property. As a consequence, our earnings may be adversely affected to the extent that we are obliged to give continued occupation to tenants with lease payments below the then market rate for such development. In addition, we may incur costs in obtaining vacant possession of a site where there are existing tenants who have occupation rights that are protected by state regulations. In such case, we are required to pay compensation to such tenants. Alternatively, we may be obligated to relocate such tenants, which could delay the development of the site and add to the cost of development. Where premises within a residential building intended for development have existing owners or occupiers, such owners or occupiers must be provided with either monetary compensation or new apartments. Materialization of these additional costs could have a material adverse effect on our business, financial condition and results of operations.

***The process of acquiring legal title to our assets is time-consuming and cumbersome and it can be difficult or impossible to establish that title is not susceptible to challenge.***

Since 1998, ownership rights to and certain transactions in respect of real estate require registration with the Unified State Register of Rights to and Transactions with Real Property (the “**Register**”) and take effect only as of the time the relevant record in the Register is created. Despite the fact that entries in the Register are considered to be the only conclusive evidence of the existence of the relevant ownership right or transaction, any interested party may challenge in court rights registered with the Register. Furthermore, ownership or other rights acquired prior to 1998 (when the Register was established) are recognized without a record in the Register, and the Register does not provide an exhaustive record of ownership or other rights acquired prior to 1998.

In addition to the Register, there is currently a separate database, the Real Estate Cadastre (which has replaced the Land Cadastre first established in 2000), which contains records regarding physical characteristics of real estate, such as the measurements and boundaries of land plots. The Real Estate Cadastre discloses certain key information in respect of land such as its location, designated use, ownership title and cadastre value. Although both the Register and the Real Estate Cadastre are expected to give clear guarantees relating to the accuracy and completeness of the information contained in these databases, there are occasions on which this has not been the case. Therefore, although we may be forced to rely upon the information contained in these databases when acquiring real property, we may not have effective redress against the authorities responsible for the maintenance of these databases if the information upon which we relied was inaccurate, misleading or incomplete.

The information in the Real Estate Cadastre and the Register may also be subject to challenge in the courts by any interested party. In general, we may only acquire title to assets that is as good as the title held by the seller of such assets. It can be difficult, or impossible in certain cases, to establish beyond doubt that such title is incapable of challenge. Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty, breach of the right of first refusal of local authorities in relation to a purchase of agricultural land, failure to receive appropriate permissions from local authorities to amend provisions relating to allowed use of property in a land lease and failure to register the transfer of title in the Register. As a result, defects in any of our previous real estate transactions may lead to the invalidation of such transactions, which may affect our title or lease rights to such real estate. Further, under Russian law, certain encumbrances of real estate (including rights existing before 1998, leases of less than one year and free of charge use agreements) do not need to be registered in the Register in order to validly encumber the property. Likewise, there may be valid encumbrances that existed but were not yet registered at the time when we examined the Register. Any successful challenge to

the validity of the seller's title to an asset may have adverse consequences for our title to such asset, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

***Our ownership interests or lease rights in land may be challenged, we may fail to enter into land lease agreements or renew land lease rights as they expire or our investment contracts may be rescinded.***

Our business includes the acquisition of ownership or lease interests in land plots and buildings in Moscow, the Moscow region and other parts of Russia that we intend to develop or redevelop further. Russian legislation related to real estate is complicated and often ambiguous and may be contradictory at the federal and regional levels. In particular, it is not always clear which state bodies are authorized to enter into land leases and sale and purchase agreements with respect to particular land plots or what exact procedure should be followed, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with in practice. As a result, our ownership of and/or lease rights to land and buildings may be challenged by governmental authorities or third parties, and our construction projects may be delayed or cancelled. In addition, execution of a lease or purchase agreement with respect to a land plot often requires completion of the land surveying works. Land surveying may be a long and time-consuming process associated, in some cases, with a need to obtain consents of the owners of the neighboring land plots and certain governmental authorities, and may result in significant delays in execution of lease or purchase agreements. Our failure to make timely rental payments under lease agreements may also lead to termination of lease agreements that could materially adversely affect our operations.

For example, due to our failure to make timely lease payments for and commence construction on the land plots in the city of Svetlogorsk in the Kaliningrad region, the lease agreements with respect to these land plots may be terminated by a court if a claim is brought against us by the Svetlogorsk city administration. As of the date of this Information Memorandum, the Svetlogorsk city administration has offered to voluntarily terminate the lease agreements.

In addition, our delays in making payments for the right to enter into a lease agreement with respect to a land plot on Shitnikov Street in Nizhny Novgorod resulted in the termination of the lease by court. Currently, the Ministry of State Property and Land Resources of the Nizhny Novgorod brought legal action against us seeking to recover RUB 1.2 billion for the lease rights. Notwithstanding the court decision, it is likely that the lease rights to the land plot will not be restored. See "*Business – Legal Matters*".

Where the original term of some of our lease agreements in respect of state-owned land has expired, we need to enter into new lease agreements with the relevant governmental authorities (or, if applicable, extend the existing lease agreements) in order to receive a construction permit, to obtain its renewal, or to proceed with construction. An investment contract entered between a developer and a regional or local government often serves as a condition to execution and renewal of our land lease agreements. At the same time, our failure to enter into a land lease agreement promptly after the execution of the investment contract may constitute a material breach of the investment contract caused by construction delays. See "*— Delays in commencement or completion of construction or other defaults by us may affect our rights under land leases or investment contracts entered into with local and regional authorities or result in us incurring additional expenses.*" Material breach of the investment contract may entitle the regional or local government to impose contractual penalties on us or rescind the contract and terminate our development rights. For example, we have failed to comply with our investment obligation to construct a commercial centre and a garage on our land plot in St. Petersburg, which constitutes a material breach of the sale and purchase agreement of the land plot. Our subsidiary, Pulkovo Estate, which holds the land plot may be sued for the breach, and the sale and purchase agreement may be found to be invalid in a court.

We often acquire participations in existing development projects with an unrelated entity acting as a co-investor. Material breach of an investment contract by a co-investor that is not remedied by such investor or by us (on the basis of an agreement with the co-investor in exchange for an additional share in the project) may result in imposition of penalties on us, delays in completion of the development project or rescission of the investment contract in its entirety and termination of our development rights. See also "*— We may develop or purchase properties through joint ventures or other similar arrangements whereby we may not have full control over such purchased properties.*"

Our business may be adversely affected if our land leases are terminated or if we are unable to renew our land leases designating development rights on commercially acceptable terms or at all for any reason, including the rescission of the investment contract. In the event of termination of a land lease (whether during the term, generally for breach, or at the expiry of the term) under the Civil Code of the Russian Federation (the "**Civil Code**"), there is a risk that the landowner will acquire the right to buy the building (or construction in progress) in question on that land at a price to be determined by a court. Due to

a lack of court practice or precedent on how these provisions will actually operate, our position, and the ongoing status of our investment, will be unclear upon termination of any land lease rights. If we are unable to renew our land leases as they expire, or if our existing leases are terminated for any reason or if their terms are revised to our detriment, or if our investment contracts are rescinded, our business, financial condition and results of operations could be materially adversely affected.

***Delays in commencement or completion of construction or other defaults by us may affect our rights under land leases or investment contracts entered into with local and regional authorities or result in us incurring additional expenses.***

A significant portion of the land obtained by us from governmental authorities for development is leasehold. Each lease or investment contract requires us to develop the relevant land by a particular date. Any extension of the agreed date is at the discretion of the governmental authority. If we do not complete the development by the agreed date, we face the risk that the governmental authority may impose fines, reject our request to extend the term of the lease or the investment contract and seek to terminate the lease or the investment contract in court.

For example, from April 2008 to July 2010 we suspended all works related to the Marshala Zakharova, possession 7 development in Moscow as a result of investigation conducted by the Moscow government whether the planned development would be permitted under construction density rules. Due to these delays, we failed to complete the construction within the term specified in the investment contract. Even though we completed the land surveying works with respect to land plots forming a part of the development site, the extension of term of the investment contract and execution of the lease agreements with us remains at the discretion of the regional authorities. Although we expect that the Moscow Government will agree to the extension of the development completion date set out in the investment contract, no assurance can be given that this will occur. We face a similar risk in connection with development of our property located in Izhevsk (the Alexandrovo village development), Perm (Bakharevka micro district development) and Omsk (the Rokossovskogo street development).

In such cases the development may be sold along with our remaining development rights to another developer at an auction, if such procedure is set out in the investment contract. Also, in case the land lease is terminated, the landowner may seek to enforce the statutory rights it has as the owner of a land plot underlying a building owned by another person, if the owner of the building has lost its right to use the underlying land plot. See “— *Our ownership interests or lease rights in land may be challenged, we may fail to enter into land lease agreements or renew land lease rights as they expire or our investment contracts may be rescinded.*” Governmental authorities may also require the removal of the incomplete construction (unless this right is specifically excluded in the relevant lease), or, alternatively, may argue that partially incomplete construction is an “unauthorized construction” and seek a court ruling declaring them to be state property or ordering their demolition. See “— *Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and we may fail to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements.*” While we do not agree with such interpretation of the applicable legal rules, we are not able to predict what decision would be made by the court, should such a claim be brought against us.

Some state authorizations and permits that are required for construction are issued for a certain term specified in such authorizations and permits. If we are unable to commence or complete any of our developments by the set dates, we will be required to apply for a renewal or extension of the respective authorizations and permits, which may be a complicated and time-consuming process. We can give no assurance that we will be successful in renewing or extending such authorizations and permits.

In addition, in February 2011, the Moscow Government adopted a resolution for the revision of all investment contracts and land lease agreements entered into with developers in respect of development projects in Moscow and their possible termination for failure to comply with the terms imposed by such investment contracts, including delays in commencement or completion of construction. In particular, it was resolved to revise the investment contracts (i) for facilities, which we already commissioned, including, where necessary; (ii) construction or design work under which was already commenced and the periods for the performance of which have still to expire; (iii) the construction of facilities under which has still to commence or the periods for the performance of which have already expired; (iv) land and legal relations under which have still to be duly documented; and (v) construction of one or more facilities under which has still to commence, but the period for the performance of which has already expired.

Our failure to ensure timely completion of the construction works may result in fines, termination of investment contracts, cancellation of leases, forced auctions or other involuntary transfers of title, which could adversely affect our business, financial condition and results of operations.

***We may be subject to unexpected fluctuations in the rents we pay in respect of land leases.***

We have entered into, and expect to enter into in the future, lease agreements with local and regional authorities in respect of properties being developed, or to be developed, by us. One of the standard terms of such lease agreements is the provision entitling the landlord to change the amount of rent payable by us without our consent, including, *inter alia*, when legislation establishing the rates of lease rental for the use of state-owned land is changed. Any such action may increase the rent payable by all tenants of the applicable governmental entity within the category of tenants to which the increase applies. Rental rates are revised from time to time by the respective local and regional authorities. As such, relevant lease agreements must comply with such resolutions of these authorities.

We are not able to control the level of rent payments for the land that we use for our development projects, which makes it difficult to predict our future expenses and calculate the amount of working capital required for our developments. Unpredicted and significant increases of the amount of rent that we pay for land plots where our developments are located may materially adversely affect our prospects, business, financial condition and results of operations.

***Russian federal, regional and local government authorities have broad discretion over the issuance of development rights and any deterioration of our relationships with governmental authorities may have a material adverse effect on our business.***

Historically, the Russian government retained all title to land in the Russian Federation and, in most regions, including the city of Moscow and the Moscow region, local governments still maintain significant influence over the privatization and leasing of land. In particular, until recently, the Moscow Government generally did not transfer title to land to non-state entities and, instead, offered lease arrangements for real estate developments, thus retaining a key long-term role in the local Moscow real estate market. Decisions on the allocation of land plots for development and on the issuance of permits and approvals necessary for construction remain subject to the broad discretion of governmental authorities; therefore, our business depends on maintaining positive working relationships with such authorities. In addition, we generally seek to purchase any government entity's share in our development projects prior to, or upon completion of, construction, and implementing this strategy successfully and on financially acceptable terms depends on our maintaining good working relationships with government authorities.

Although we believe that we have constructive working relationships with Russian federal, regional and local governmental authorities, including the Moscow Government, there can be no assurance that we will be able to establish and maintain the relationships necessary to ensure the success of our existing and future projects. For example, the Moscow Government's residential building programs require our (and other developers') participation in tenders. If we produce a level of residential housing that is lower than what we have agreed with the Moscow Government or if our business plans do not match the expectations of the Moscow Government, our relationship with the Moscow Government could deteriorate. Failure to establish and maintain such relationships or substantial deterioration thereof may prevent acquisitions of new land plots for our developments, or may lead to significant delays in completion of our projects, either of which could materially increase our costs, harm our business reputation or otherwise materially affect our business, financial condition and results of operations.

In September 2010, President Medvedev dismissed Yury Luzhkov, who had been the Mayor of Moscow since 1992, and nominated Sergei Sobyenin, former Deputy Prime Minister and the Chief of Staff of the Russian Government, for this office. In October 2010, Sergei Sobyenin became the Mayor of Moscow after the confirmation of his authority by the Moscow City Duma. Mayor Sobyenin, who was not a member of the Moscow Government before his appointment, announced his plans to critically review and revise a number of key policies of the Moscow Government, including policies related to development and construction.

In February 2011, the Moscow Government adopted a resolution for the revision of all investment contracts and land lease agreements entered into with developers in respect of development projects in Moscow and their termination for failure to comply with the terms imposed by such investment contracts, including delays in commencement or completion of construction. See "*Delays in commencement or completion of construction or other defaults by us may affect our rights under land leases or investment contracts entered into with local and regional authorities or result in us incurring additional expenses.*" In addition, in May 2011, Mayor Sobyenin publically announced several far-reaching policies which would introduce substantial restrictions on construction activities in the center of Moscow and impose additional social infrastructure obligations on developers. Mayor Sobyenin also expressed the need to finalize all ongoing construction projects in the center of Moscow within three years. In line with these policies, on May 11, 2011, Mayor Sobyenin issued an order suspending the issuance of construction permits in the historic part of Moscow (located within the Garden Ring Road). Although, currently, we

have no development projects in the historic part of Moscow, this order can restrict our future projects, and may have a material adverse effect on our business, financial condition and results of operations.

In July 2011, the President of the Russian Federation instructed Moscow Mayor Sobyenin and Moscow region Governor Mr. Gromov to submit proposals for the extension of the territory of Moscow in the context of the potential creation of a new Moscow federal district. The proposals submitted to the President provide for the extension of the territory of Moscow from 107 thousand hectares to 251 thousand hectares, *i.e.* by 2.35 times, to the south-west of the existing territory of Moscow. As of the date of this Information Memorandum, the Moscow and Moscow region authorities have agreed on the transfer of approximately 720 hectares from the Moscow region to Moscow and of approximately 328 hectares from Moscow to the Moscow region. The Moscow and Moscow region authorities are now developing a more detailed plan related to the implementation of the project. Even though construction permits and other approvals necessary for completing construction projects are generally harder to obtain in Moscow than in the Moscow region, we do not expect the proposed expansion of Moscow to have a significant impact on our operations or financial condition. We currently have one development project (Kommunarka village) within the territory proposed to be transferred from the Moscow region to Moscow and expect its market value to increase if the Moscow expansion plans are implemented.

Although we believe that we will continue to maintain constructive working relationships with the Moscow Government, we expect additional delays in obtaining state permissions and approvals from the city of Moscow caused by additional reviews and revisions of investment and construction documentation of all developers in Moscow, including ours. Such delays, if they are significant and result in suspension of our development projects, could materially increase our costs, harm our business reputation or otherwise materially affect our business, financial condition and results of operations.

In addition, some of the Group's investment contracts with the municipal, regional or federal authorities for development of residential areas do not strictly define the Group's obligations with respect to construction of related infrastructure or other objects. The absence of such documented obligations often results in changes being made by the contracting party to the scope of work and terms. This can result in changes in the Group's initial estimate of construction costs and have a negative impact on the Group's profitability.

See also “— *Risks Relating to the Russian Federation—Risks Related to the Political and Social Environment in Russia—Conflicts and tensions between central and regional authorities and other political conflicts could create an uncertain operating environment hindering our long term planning ability.*”

***Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and we may fail to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements.***

Our operations and properties are subject to regulation by various governmental entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. The planning and approval process in most parts of the Russian Federation is bureaucratic and involves uncertainty. For any project being developed in Russia (subject to certain narrow exceptions that do not apply to all or substantially all of our developments), the architectural and detailed project design (including building area measurements) must be approved by several administrative bodies within the appropriate local or regional government. In addition, each project must receive administrative approvals from various governmental agencies, including the fire, health and safety, environmental protection and sanitary departments, as well as technical approvals from various utility providers, including electricity, gas and sewage services.

The majority of our developments are located on state-owned land. The construction of a new building on a state-owned land plot requires execution of a lease agreement and often also an investment contract with the governmental authorities. Obtaining necessary approvals and permissions for execution of the investment contract and the lease agreement is a complicated and time-consuming process. Certain permissions and authorizations may only be obtained if we have entered into a land lease agreement that is in effect when we apply for the relevant permission or authorization. Some of our land lease agreements have expired, which makes it difficult or impossible to obtain certain permissions and authorizations. See “— *Our ownership interests or lease rights in land may be challenged, we may fail to enter into land lease agreements or renew land lease rights as they expire or our investment contracts may be rescinded.*” These requirements may hinder, delay or significantly increase the costs of our development activities. Moreover, a change in our development plans relating to the type of building to be constructed or its major parameters would require us to prepare a new set of detailed project design documentation and re-obtain a large number of permissions and authorizations, which would significantly delay the development process.

A number of approvals of preliminary planning design, architectural and detailed project design, as well as land lease rights and approval of the permitted use of the land, are necessary in order to receive permission to commence construction on a land plot. The construction or renovation of buildings is carried out pursuant to detailed project design documentation, and, ultimately, upon the issuance of a construction permit issued by the regional or local authorities. In some cases, we may need to have the construction permit amended to reflect changes to the scope and nature of the project.

We have begun construction of several buildings, including the construction on our development sites in the towns of Khimki (the Novokurkino and Sovkhoznaya 11 developments), Mytishi (the Yaroslavsky development) and Dmitrov (the Kosmonavtov Street development) in the Moscow region and in Moscow (the South Chertanovo, micro districts 17-18 development), without first obtaining the necessary construction permits. Similarly, we continue construction of several buildings in Nizhny Novgorod (the Mescherskoe Lake development) and in Moscow (the English Town development), even though our construction permits expired in 2009. As for the English Town development (Moscow) it is not our responsibility to obtain the construction permits as we are not the customer-developer who is obliged to do so, but the co-investor. In the projects where we are responsible for obtaining construction permits, we are currently in the process of obtaining or renewing the necessary permits for these buildings, and we do not expect our technical non-compliance in this regard to materially adversely affect our business, financial condition or results of operations. Nonetheless, we cannot assure you that the relevant authorities will not take action against us for non-compliance with applicable laws, regulations and requirements in the future. Moreover, we may be subject to fines or other penalties for commencement of construction without a construction permit. For example, Russian Construction Supervision Administration of the Moscow region imposed fines on our subsidiaries for construction works on the Yaroslavsky development site in Mytishi, the Moscow region, without a construction permit. Moreover, any such incomplete construction may be required to be demolished. Usually, we obtain an order for preparation and maintenance of construction sites to commence preparation works. See *“Regulation of Real Estate in Russia — Construction and Development — Construction Permit”*. Our site preparation activities frequently include, but are not limited to, site clearing of brush and minor debris, grading general excavation and excavation for utility trenches and pile foundation works. We cannot assure you that the relevant authorities will not find these activities to constitute construction requiring a construction permit and take action against us for technical non-compliance with applicable laws, regulations and requirements in the future.

Construction without a valid construction permit is a violation of Russian law and, currently, federal and regional governments are taking steps to enhance monitoring in this field. Effective implementation of these measures might delay the completion of certain current development projects and extend the overall time required to implement development projects in the future, which may have a material adverse effect on our business, financial condition and results of operations.

Should we fail to conform any of the projects we are developing to the project documentation or the provisions of the relevant land lease, commence construction without a construction permit or otherwise fail to comply, or be found to have previously failed to comply, with regulatory requirements, we may be subject to fines and penalties, and any incomplete construction may be considered an unauthorized construction. An unauthorized construction must be either (i) declared a property of the owner of the land plot underlying such construction by a court ruling, with us only being entitled to recover a portion of the development costs we have incurred, or (ii) demolished at the developer's expense with the subsequent cancellation of the project. Even if the construction has been approved by the relevant governmental authorities in principle, any failure to obtain any document necessary for construction or a state commissioning act upon completion of the construction will prevent us from recording our ownership title to the completed building. We will not be able to transfer any residences or other real estate units in such building or to receive the statutory protection afforded to a real property owner.

Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards; the issuance and renewal of licenses, permits, approvals and authorizations; and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct inspections of our operations and properties. Any such future inspections may determine that we have violated laws, decrees or regulations, and we may be unable to refute such determination or remedy the violations. Any failure to comply with existing laws and regulations, the terms and conditions of our licenses and permits, or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties imposed on our officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition and results of operations.

***A number of our projects are in the early stages of development, and we may not be able to complete these projects successfully. In addition, certain projects require execution of formal agreements, such as land lease agreements, which have not yet been entered into or registered with appropriate authorities.***

Some of our projects, including projects in Dolgoprudny, Dmitrov and the Kommunarka Village project in the Moscow region, are in the early stages of development. In addition, we have not yet entered into or registered with appropriate authorities all the land lease agreements for our projects, and we have not yet received all required permits and approvals necessary to commence or complete the construction of our projects. There can be no assurance that we will be able to enter into or register such contracts or agreements or receive such permits or approvals in a timely manner or at all. If our development rights are successfully challenged, we will not be able to complete the development. See also “— *Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and we may fail to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements.*” Furthermore, we may not be able to complete such projects in accordance with the initially planned timetable and other parameters, including the terms and conditions of the permits and approvals we received, the contracts we entered into and the total and net areas of buildings set out in those contracts. Any failure to comply with certain material encumbrances and restrictions with respect to, or properly document our title to, our projects and fulfill investment terms thereunder may result in our inability to complete such projects.

Our failure to complete the projects that are currently in early stages of development, or execute formal agreements, which are not yet entered into or registered with appropriate authorities, may have a material adverse effect on our business, financial condition and results of operations.

***The construction of buildings is subject to a wide range of technical standards and regulations, the amendment and modification of which may significantly increase our expenses.***

The regulation of the construction market in the Russian Federation includes a wide range of technical standards approved by the relevant authorities. These standards are subject to review and amendment from time to time. If significant modifications to these standards are introduced, we may be forced to change our construction processes, which could require additional expense, adversely affecting our business, financial condition and results of operations.

***Zoning restrictions and local opposition can delay or preclude construction.***

In order to develop a property on each particular site, the zoning of such site must permit the construction. Zoning classification of a land plot specifies the type of building or complex that may be constructed on such land plot (residential, office and/or other types) and the major parameters of the building (or the complex of buildings), including its height. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, we will be required to apply for the required zoning classifications. This procedure may be protracted, and we cannot be certain that the process of obtaining proper zoning will be completed with sufficient speed to enable us to complete a residential or commercial development on schedule, or at all. A change in our development plans relating to the type of building to be constructed or its major parameters would require us to re-apply for zoning classifications, which would significantly delay the development process. In addition, changes to applicable zoning by the relevant authorities, which may at times be arbitrary, may jeopardize projects that have already been commenced.

Legislation requires that public opinion be taken into account by the authorities when considering a change of the zoning classification. Once initial public hearings have been conducted and all state approvals have been obtained, the authorities are not obligated to consider changes in public opinion. However, there have been a number of cases in St. Petersburg where the authorities have changed their decisions or halted proposed developments in response to adverse public opinion. Were this to happen to any of our developments, it could have a material adverse effect on our business, financial condition and results of operations. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays.

With regard to several land plots in Moscow and other regions (in particular, the Mantulinskaya Street 7, Sovkhoznaya 11, Varshavskoe Highway 141 and Perovskaya 66 developments), in accordance with the recently adopted town-planning and zoning regulations of Moscow and other regions the permitted use of the relevant land plots is for industrial use (in case of the Mantulinskaya Street 7, Varshavskoe Highway 141 and Perovskaya 66 developments) and agricultural use (in case of the Sovkhoznaya 11 development). Accordingly, in order to commence construction on these sites, we will need to agree with the relevant authorities to change the permitted use of the land underlying the development to allow the construction of multi-flat residential buildings.



Therefore, if we do not receive zoning approvals, if they are arbitrarily revoked or if the procedures for the receipt of such zoning approvals are delayed, our costs will increase or we may be forced to change our development strategy with respect to one or several properties, which could have a material adverse effect on our business, financial condition and results of operations.

***Some of our developments may be subject to historical preservation laws and other planning restrictions.***

Our activities within these areas are subject to both federal and local regulations relating to the preservation of cultural heritage sites, which often conflict. See “*Regulation of Real Estate in Russia — Construction and Development — Construction in the City of Moscow*”. If we are found to be in violation of these local or federal regulations, we may be subject to legal proceedings and fines or the termination of our construction permit in relation to that development. Regulatory authorities may also base their approvals upon the opinion of preservation experts, which may not be consistent with applicable legislation. In addition, some of our project land plots are covered by protection zones around natural (e.g., rivers) or industrial (e.g., utilities infrastructure or transport infrastructure) objects, and our activities within these zones are limited or entirely prohibited. We have to observe the legal regime of these special zones during the design and construction phase of our development, and failure to do so may lead to suspension of our activities, administrative fines or, in the worst case scenario, demolition of the infringing project.

Further, some of our developments may be subject to planning restrictions imposed by Russian federal, regional and local governments. For example, we acquired a land plot with a total area of 30.6 hectares in the Rostov region, that we intended to use for our development project. Due to the construction of a highway, regional authorities decided to expropriate a part of the land plot with a total area of 3.7 hectares for below-market consideration. With the mandated protection zone of 75 meters from the roadbed, approximately 56% of the land plot has been rendered unsuitable for residential construction. Our subsidiary, LLC Rostovskoe More, has brought a claim against the seller of the land plot seeking to invalidate the sale and the return of the purchase price of more than RUB 180 million.

Any of these regulations may restrict our current and future ability to develop and/or construct our projects on favorable terms, or at all, which could have a material adverse effect on our business, financial condition and results of operations.

***Our interest in a development may be reduced by governmental authorities, seeking to increase their interest in certain circumstances, or we may spend more than expected in carrying out certain urban development projects required by such authorities under our investment contracts or otherwise.***

Where we acquire development rights under an investment contract with local or regional authorities, such authorities frequently retain an interest in the developments. This interest is determined on a case-by-case basis and generally does not exceed 30% of the completed development. In some instances, we agree to incur additional expenditure in relation to the development (relating to, for example, enhancements to the city’s infrastructure) in order to reduce or acquire the government’s share, where such an option is reflected in the relevant investment contract. The government entity generally agrees to our buying out its interest of the development prior to, or upon, completion of construction.

However, while our strategy with respect to each of our existing and future developments subject to investment contracts is to buy out the government entity’s interest, there can be no assurance that we will be successful in implementing this strategy or that we will be able to do so on financially acceptable terms. Under certain circumstances, the government entity may try to increase its percentage ownership of a project or seek to increase the payment required to transfer ownership to us.

Where we agree or are required to incur additional expenditure for infrastructure enhancements or the construction of other special projects, the amount of such expenditure is usually estimated in the investment contract. In the past, actual expenditures for such projects have often been significantly higher than estimated, thus reducing the overall profitability of certain of our developments. In addition, the Moscow authorities have adopted and the Moscow region authorities plan to adopt technical standards and regulations according to which each large residential development should include certain elements of social infrastructure, including schools, kindergartens, clinics and parking spaces. These requirements may reduce the profitability of our development projects since such elements of social infrastructure either are to be transferred to the relevant local or regional authorities for no consideration or may only be sold at a loss. Also, such technical requirements may be revised by relevant local or regional authorities after we have commenced construction on a development site, which may result in additional costs and further reduce the overall profitability of a development project.

An unpredicted and significant increase of a governmental entity's interest in our developments or additional expenditure for infrastructure enhancements may have negative impact on the profitability of our development projects, which could have a material adverse effect on our business, financial condition and results of operations.

In some cases we are not able to complete construction of certain elements of social infrastructure within the period of time specified in an investment contract. In particular, we have not yet constructed necessary infrastructure elements of several developments, including micro district 14 in Peredelkino in the Moscow region, where we have not yet constructed a school, Volgo-Oksky boulevard in Moscow, where we have not yet constructed a clinic and a retail shopping center, and Krasnaya Gorka in the town of Lyubertsy in the Moscow region, where we have not yet built certain engineering infrastructure facilities. Several residential buildings in these developments have been completed and sold.

If we fail to complete the construction of the social infrastructure within the period set forth in the investment contract, the governmental authority may refuse to execute an investment contract acceptance act, which certifies that we have duly performed our obligations under the investment contract. Execution of an investment contract acceptance act is a condition to state registration of ownership title to the real estate units in a completed property. Private investors may file complaints or initiate legal proceedings against us demanding that we complete the construction of the elements of social infrastructure and (or) take necessary actions for registration of their ownership title to apartments in completed buildings, which may harm our business reputation or otherwise materially affect our business, financial condition and results of operations. See “— *The development and sale of residential properties may result in legal proceedings being brought against us.*”

***The development and sale of residential properties may result in legal proceedings being brought against us.***

The development and sale of residential properties may result in legal proceedings being brought against us in connection with construction delays or delays in obtaining the appropriate title registrations from local and regional authorities. The process of preparation of all necessary documents for registration of title may be time-consuming. Moreover, registration of title cannot be performed until we obtain an investment contract acceptance act, which certifies that we have duly performed our obligations under the investment contract and which is executed only after we have completed the construction of certain elements of social infrastructure. See “— *Our interest in a development may be reduced by governmental authorities, seeking to increase their interest in certain circumstances, or we may spend more than expected in carrying out certain urban development projects required by such authorities under our investment contracts or otherwise.*” Our failure to prepare the required documentation promptly upon completion of construction may result in complaints of our customers or court claims brought against us. Such claims or complaints may result in the imposition of administrative fines on us and may have a material adverse effect on our reputation with existing or potential customers.

Before June 2010, when Russian Federal Law No. 119-FZ “On Amending the Federal Law On State Registration of Real Property and Transactions Therewith and Certain Other Legal Acts of the Russian Federation,” came into effect, we used certain financial arrangements not expressly provided for in the Cost Sharing Law, which allowed us to receive funds from potential purchasers of residences at various early stages of the construction process. If such alternative financial arrangements as well as the arrangement we now use are found to be in violation of the Cost Sharing Law, we may be required to return funds (together with interest) to investors or owners of apartments who participated in such arrangements and to pay administrative fines. See “*Risk Factors — Risks Relating to Our Business — We are reliant on pre-sales to finance our development projects and our ability to pre-sell apartments may be materially adversely affected by changes in laws regulating residential construction.*” In addition, construction delays or delays in obtaining the appropriate title registrations with respect to properties that were sold on the basis of cost sharing agreements entitle individual investors to claim an immediate refund of the entire amount paid by them, together with the accrued interest, without the need to provide evidence of the existence of any usual grounds for rescission of the sale contract (that is, there is no materiality threshold for our breach). The aggregate amount of such claims for immediate refund that may be brought by individual investors was approximately RUB 3,100 million as of June 30, 2011, according to our management accounts. If a significant number of individual investors decide to bring such claims against us, we may not be able to satisfy these claims, which may have a material adverse effect on our business, financial condition and results of operations.

Legal proceedings may also be brought against us in connection with materials used or defects in the properties sold by us, or by third parties engaged by us, such as architects, engineers and construction contractors or sub-contractors, or as a result of other factors. Although we believe that the materials we use and have used in the construction of our developments comply and have complied with all applicable laws and regulations in force at the time of their use, these laws and regulations are subject to change. Some of the materials that we and other companies in the real estate development industry in Russia have used in the past, including asbestos, are no longer legally permitted to be used and have been the subject of claims by individuals who have

handled or been exposed to such materials. In certain other countries, some of these materials have been the subject of a significant number of claims against the manufacturers and users thereof. As of the date of this Information Memorandum, we have not been subject to any claim relating to asbestos, including any claim with respect to our use of, or our employees' handling of or exposure to, asbestos. If any claims relating to materials used or defects found in the properties sold by us are brought against us, we will be exposed to investigation and defense costs, as well as liability for damages. Damages could include, among other things, the costs of remediation, loss of property and costs of health-related bodily injury. The costs of insuring against construction defects and building material products claims and health-related bodily injury are high and the amount of coverage offered by insurance companies is also currently limited. As a consequence, some or all of the financial risk associated with building material products and construction defects is borne by us, and we may be liable in amounts that exceed available limits on our comprehensive general liability policies or that are excluded from coverage.

In addition, even if a claim relating to the quality and safety of our buildings is not successful or is not fully pursued, any negative publicity could have a material adverse effect on our reputation with existing or potential customers and on our business, financial condition and results of operations.

***Shortages of components and materials may delay our projects or reduce our sales and increase our costs, and our financial results are in part dependent on volatile prices for these components and materials.***

Our construction projects require supplies of components and raw materials, including cement, metal, crushed rock, gravel and sand, and any inability to obtain sufficient quantities of raw materials necessary for our projects at acceptable prices or at all could result in delayed completion times and/or increased costs. Materials for some of our major projects may not be available at acceptable prices, which may increase our costs or delay the construction due to the need to identify additional suppliers. Any supply interruption or shortages may delay the construction of our projects, which, in turn, could harm our reputation with our customers and may result in lost sales opportunities.

In addition, the prices of the raw materials we use in our construction process, such as cement and metal, are difficult to forecast over the long term. We do not control a number of factors affecting prices, which include, but are not limited to, regional supply and demand and expectations of future supply and demand. Our financial results may be adversely affected by significant, sustained increases in the prices of raw materials, and in particular cement and metal.

In 2009, we divested our raw materials production division in order to satisfy our liquidity requirements and carry out the debt restructuring. As a result of the divestment, our dependence on third parties for the supply of raw materials, such as crushed rock, gravel and sand, has increased. Therefore, our exposure to the risks that we will be unable to obtain sufficient quantities of raw materials or to forecast future prices of such raw materials has increased as well. Also, because we no longer supply gravel, sand and crushed rock to our cement suppliers, we may not be able to negotiate similar long-term arrangements for the supply of cement that we use in our operations, as we did before. If we are unable to obtain sufficient quantities of raw materials at acceptable prices, it could have a material adverse effect on our business, financial condition and results of operations.

***We depend on contractors and subcontractors to construct our projects.***

We rely on subcontractors to perform certain types of construction and development activities. In particular, we engage subcontractors, *inter alia*, to install electrical wiring, heating, plumbing systems and perform building facade works. We often engage fee developers to manage the construction process in respect of our poured concrete buildings. Fee developers assume the responsibility for the choice and supervision of subcontractors. If we or fee developers engaged by us cannot enter into subcontracting arrangements on acceptable terms or at all, we will incur additional costs, which may have an adverse effect on our business. The competition among developers for the services of quality contractors and subcontractors may cause delays in construction, exposing us to a loss of competitive advantage or contractual penalties. Because of such competition, subcontracting arrangements may be on less favorable terms than otherwise available, which may result in increased development and construction costs. By relying on subcontractors, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects and the financial stability of the subcontractors. A shortage of workers would also have a detrimental effect on our subcontractors and us and, as a result, on our ability to conclude the construction phase of our projects on time and within budget. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

***Without sufficient local infrastructure, our construction projects may be delayed, or we may be unable to realise the full expected value of our completed projects.***

The construction of our projects and their viability, once completed, depend on the availability and sufficiency of local infrastructure, including electricity and other utilities, such as gas, heating, telecommunications and sewage services. Since the availability and maintenance of local infrastructure outside the perimeter of our developments is dependent upon the continued and timely co-operation of third parties, any delay, interruption or inability to ensure the supply of these and other utilities may cause a delay in completing any or all of our developments and affect their value or marketability. Any such delay or inability to realize the full expected value of our completed projects may adversely affect our business, financial condition and results of operations. See “—Risks relating to the Russian Federation— Economic Risks— We could experience disruptions in our normal business activities as a result of problems associated with Russia’s physical infrastructure.”

***We may develop or purchase properties through joint ventures or other similar arrangements whereby we may not have full control over such purchased properties.***

Although we have formed joint ventures in the past in which we have had less than 50% equity ownership, we currently seek to enter into new joint ventures and co-ownership arrangements with other parties only on the condition that we will own at least 50% of the equity in, and will exercise control over the management of, each such venture. However, in the future, we may choose, for commercial reasons or otherwise, to enter into business relationships whereby we may not have full control over such projects. In such situations, our partners or co-owners may have business objectives different from ours, which could materially adversely impact the management of such property, our business and reputation.

In addition, we may not be able to maintain ongoing business relationships with our current co-investors. Any failures in this regard could have a material adverse effect on our business, financial condition and results of operations.

***Real estate appraisals with respect to the properties and projects included in this Information Memorandum may not reflect their actual market values because determining such values is an inherently subjective process. In addition, an appraisal may not be directly comparable to those given in respect of similar portfolios held by other real estate development businesses in the Russian market as a result of differing assumptions and methodologies.***

CBRE, an independent real estate appraiser, has prepared the Valuation Report on the basis of certain valuation methodologies and assumptions regarding the Russian real estate market and the projects in our portfolio. See “*Business — Projects — Valuation of Our Properties*” and “*Business — Projects — Certain Assumptions and Methodologies*”. The valuation of real estate and real estate related assets is inherently subjective. As a result, valuations are subject to uncertainty. A number of factors could result in the values that CBRE has ascribed to these properties and projects differing materially from the actual market value of such properties and projects.

The valuations contained in the Valuation Report are stated as of June 30, 2011, and although we believe there has been no material change to the aggregate market value of our properties, and there can be no assurance that these figures accurately reflect the market value of our properties as of any other date. The market value of our properties may decline significantly over time due to various factors. In addition, the values ascribed by CBRE should not be taken as an indication of the amounts that could be obtained by us upon disposal of such properties, whether in the context of the sale of individual properties or the portfolio as a whole.

In addition, the use of different valuation methodologies and assumptions would likely produce different valuation results. In particular, CBRE used net sellable area for the properties in the Valuation Report based on data provided by us, which in some cases differed from the net sellable areas in the investment contracts in respect of those properties (as has been noted in the Valuation Report and reflected in the valuations by assigning a higher discount rate or adjusting the development period for the relevant project). See “— *The final building areas and net sellable area for projects in development may differ materially from the gross building areas and net sellable areas set out in the Valuation Report.*”

In addition, CBRE’s valuation of properties where development plans had not been confirmed at the valuation date reflects its opinion of an appropriate development that could reasonably be expected to form the basis of a bid for a property by a third party, *i.e.*, the “Highest and Best Use” for each property. The “Highest and Best Use” is defined in Paragraph 3.4 of the International Valuation Standards as “the most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued”. As a result, CBRE’s valuations do not necessarily reflect our intended investment/development program.

Moreover, there are difficulties in applying the sales comparison approach and the income approach, two valuation methodologies used in the valuation of our properties. In Russia, a lack of transparency and a relatively low volume of recorded transactions make it difficult to assess market values using the more common sales comparable approach. These factors and the wide variation in returns required on Russian projects from different investors also make it difficult to correctly assess market derived discount rates. Deal information, even if reported, is rarely reported accurately and is often manipulated in a manner so as to benefit the parties to the transaction.

Further, there can be no assurance that the size of our economic interest in various projects and properties assumed by CBRE for the purposes of the Valuation Report will conform to the actual economic interest acquired or maintained by us in such projects and properties or documented in related formal contractual documentation.

For the reasons stated above, we cannot assure you that the real estate appraisals included in this Information Memorandum reflect the properties' actual market values or that such values will not decline over time. Moreover, certain valuations have been provided with respect to our real properties and projects in the past, which may not be indicative of the actual values of such properties and projects and you should not rely on them.

***The final building areas and net sellable area for projects in development may differ materially from the gross building areas and net sellable areas set out in the Valuation Report.***

For projects that are in the development stage, gross building areas and net sellable areas are not fixed until the authorities have granted final construction permits, which specify the areas that we are entitled to construct. Where the gross building area for a property was not fixed at the date of the Valuation Report, CBRE relied on information provided by us in relation to gross building area if it corresponded to the Highest and Best Use analysis undertaken by CBRE. In cases where gross building area was not provided to CBRE, CBRE calculated such areas by adding 20% to the net sellable area of the economy class property and 25% to the net sellable area of the business class property. Net sellable areas for the properties in the Valuation Report were based on information provided by us. In some cases, such net sellable areas differed from those indicated in certain governmental permits and preliminary design documentation that CBRE reviewed. However, in the majority of these cases, the differences in area were under 10%, which we believe is common practice in the local market and often occurs at early development stages, as investment contracts are stated in approximate areas.

Our assumptions and forecasts with respect to the net sellable areas of our developments may be subject to significant changes in the future. We have not started construction at many of the developments in the Valuation Report. Many such properties are at the early stages of development, and detailed project design documentation, which specifies major parameters of the future construction work, may not exist. We commonly prepare detailed project design documentation for our developments one or two years before we obtain the construction permit and commence construction. Our calculation of net sellable areas for the properties at the earlier stages of development is based on the estimates of our management, which have not been independently verified and reflect our then current understanding of our strategy and development plans.

As a result of revisions of our development strategy in response to changes in real estate market, economic condition or our financial performance, we may change our development plans with respect to particular properties. We may also be forced by local or regional governments to revise master planning schemes of our developments and to amend the investment contracts accordingly. Such revisions of our development plans and master planning schemes of our development projects may result in significant changes in the net sellable areas of our developments in the future.

The gross building areas and net sellable areas in the Valuation Report for certain development projects, therefore, are only an estimate of the area that we are able to construct, and we can give no assurance that we will construct all such amounts of building area and sellable area. For purposes of the valuation, CBRE assumed that we would be able to obtain all permissions required to complete construction of our projects in accordance with the business plans provided to CBRE. CBRE independently checked the business plans provided to reasonably estimate the costs and time needed for obtaining the necessary construction permits. However, the final gross building area and net sellable area for a development project as set out in the relevant permit may differ materially from the gross building areas and net sellable areas used in the Valuation Report. In the event that the final net sellable areas, or the measurements calculated by the Bureau of Technical Inventory, are lower than information we have provided to CBRE, the Market Value may be higher than the value we may ultimately realize from the sale of the completed properties.

***The real estate industry in Russia is highly competitive, and we may not be able to compete successfully.***

The real estate industry in Russia is highly competitive and fragmented, particularly in the residential segment. According to Rosstat, there are over 8,500 developers in the Moscow region and approximately 176 thousand construction companies throughout Russia. We face strong competition in the Moscow Metropolitan Area, and competition from local developers in the other regions where we operate. In the Moscow Metropolitan Area, we compete with other producers of prefabricated panel housing as well as real estate companies that construct poured concrete buildings. Our major competitors in the Moscow market are DSK-1, SU-155 and Glavmosstroy, which have considerable production capacity. We also compete with a number of real estate companies and developers for properties, development projects, contractors and customers. Some of our competitors may have greater financial, technical, marketing and other resources than us and greater economies of scale, broader name recognition and more established relationships in the market. We believe that the main competitive factors in the real estate development business in Russia include the availability and location of land, terms and availability of financial resources, characteristics of projects, quality of the developments and reputation of the developer. Competition among property developers may cause an increase in raw material costs, shortages in quality construction contractors, surpluses in property leading to decreased property prices and delays in the issuance of government approvals and permits, and higher costs. Competition may also lead to a significant increase in prices for land available for development or real estate available for sale or an increase in prices to enter into investment contracts as a co-investor, impeding the acquisition of new assets for our property portfolio. We regularly review a number of specific targets for acquisition, but we do not expect to compete for or successfully complete all acquisition opportunities we evaluate. No assurance can be given that we will be able to compete successfully in the future. Our inability to compete successfully could result in reduced operating margins and an inability to increase our market share, which, in turn, may have a material adverse effect on our business, financial condition and results of operations.

Existing and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to enhance their ability to address the needs of prospective customers with a view to reducing our market share. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. As a result, our competitors may be able to adapt more quickly than us to changes in customer requirements, and may be able to devote greater resources to the promotion and sale of their projects. Failure to respond to such pressures effectively could result in a material adverse effect on our business, financial condition and results of operations.

***Our project portfolio has been historically and still is geographically concentrated in the Moscow Metropolitan Area.***

The majority of our real estate properties as well as our key production facilities are located in the Moscow Metropolitan Area. Due to high distribution and transportation costs, concrete panels that we produce can only be used on construction sites or sold profitably to purchasers that are located within relatively close proximity to our production facilities. As a result of this geographic concentration, we are dependent on the political and economic development of only one macro region of Russia. Any change in the local political or regulatory environment, including at the level of the Moscow Government, decline in economic activity or weakness in the local real estate market could materially adversely affect our business, financial condition or results of operations.

We can give no assurance that we will have the opportunity to acquire production facilities in other regions of Russia or to diversify significantly our real estate portfolio to include properties and projects in additional regions of Russia or, even if we do, that we will be able to benefit from such opportunities in a manner similar to our past projects. In addition, we may not have the same level of familiarity with local subcontractors, suppliers, business practices and regulations and the same level of established relationships with the local authorities, subcontractors and supplies, any of which may put us in a less competitive position as compared to developers with a better established local presence and stronger ties with local authorities, contractors, suppliers and customers. If we fail to generate revenue from developments in other regions of Russia in line with our expectations or suffer significant financial losses in connection with our expansion, it could have a material adverse effect on our business, financial condition or results of operations.

***Deterioration in our brand image could adversely affect our business.***

We rely to a significant extent on our brand name and image to attract potential customers. Any negative incident or negative publicity concerning us or our properties could adversely affect our reputation and business prospects. Brand value is based largely on consumer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade consumer trust. Consumer demand for our properties and our brand value could be significantly diminished if we fail to preserve the quality of our properties or to deliver a consistently positive consumer experience in each of our residential

complexes, or if we are perceived to act in an unethical or socially irresponsible manner. Any negative publicity and resulting decrease in brand value, and/or failure to establish our brand in these regions could have a material adverse effect on our business, results of operations and financial position.

***We are involved in construction projects for Russian federal, regional and local governments and are required to complete such projects according to demanding specifications and often restrictive budgets.***

We provide construction services for Russian federal, regional and local governments, particularly in the Moscow Metropolitan Area. In 2009, DSK-2 and DSK-3 produced approximately 884 thousand square meters of residential housing and approximately 152 thousand square meters of such housing was provided to the Moscow Government as part of its residential building program. The success and sustainability of our involvement in construction projects for Russian federal, regional and local governments depends on establishing and maintaining relationships with various governmental authorities, as well as completing projects according to specifications and meeting agreed budgeted costs. Each procurement contract is subject to our winning a competitive tender, the terms and conditions of which are typically complicated and demanding in terms of cost constraints, timing and complexity of the work involved. Furthermore, in the event that government representatives become dissatisfied with our efforts, seek to reduce costs further, choose to diversify third-party providers of such construction works or decide to discontinue our existing relationships for any reason, we risk losing a substantial portion of our revenues. Although we have successfully completed many construction projects in the past, we can give no assurance that we will be able to maintain our relationships with governmental authorities in the future and secure a continuous flow of new projects.

In the event that the Russian Government or the Moscow Government reduces the expected budget disbursements or chooses to use other construction companies or no longer has the need for these construction projects, there could be a significant reduction in our revenues, which may in turn have a material adverse effect on our profitability. Failure to procure new construction projects or maintain our existing relationships with governmental authorities could materially adversely affect our business, financial condition and results of operations.

***Some of our current construction projects are funded from the State budget and therefore may be subject to delayed or reduced payments.***

Some of our current construction projects are funded from the Russian state budget. For example, in January 2010, we were engaged to carry out mass-market housing construction for the Russian Ministry of Defense in the city of Podolsk in the Moscow region by a general contractor of the project. Payments for our construction services will be made out of funds received by the general contractor from the Russian federal budget. Pursuant to the agreement, we have committed to complete construction of 28 buildings with a net sellable area of 265 thousand square meters (equivalent of approximately 4,000 units) on the development site, including 16 buildings by the end of 2010 and 12 buildings by the end of 2011.

The federal budget in Russia greatly depends on the prices of oil and gas, which has demonstrated significant volatility in the past few years. In addition, the recent economic downturn in Russia also negatively affected state revenues. See “*Industry.*” Should state revenues decline for these or other reasons, state funding of our development projects may be delayed or reduced. Even if state revenues remain stable, the government may decide to delay or attempt to renegotiate the payment terms or amounts, for example if the government decides to reprioritize its payment obligations. In the event that the sums due for such projects are not paid in full and/or on time, our business, financial condition and results of operations would be adversely and materially affected.

***We estimate construction time and costs in order to determine the tender price for construction services to third parties. However, the actual implementation of a project may not accord with such estimation due to cost overruns and other related construction risks.***

In 2010, we derived approximately 16.0% of our revenue from provision of construction services to third parties. We normally secure project works through a competitive tender process. To determine the tender price, we estimate construction time and costs. However, the actual implementation of a project may not accord with such estimation due to cost overruns and other related construction risks. Construction contracts are normally awarded through a competitive tendering process. We need to estimate the construction time and costs in order to determine the tender price. There is no assurance that the actual construction time and costs would not exceed our estimation during the actual implementation of the project, which often takes months or years to complete.

The time taken and the cost actually involved in completing construction projects undertaken by us may be adversely affected by many factors, including the shortage and cost escalation of materials and labor, adverse weather conditions, additional variations to the construction plans requested by customers or because of technical construction needs, disputes with subcontractors, accidents, changes in the Government's priorities and unforeseen problems and circumstances. Any of these can give rise to delays in completion of construction works or cost overruns or even unilateral termination of projects by customers.

Delays in the process of obtaining any specific licenses, permits or approvals from Government agencies or authorities required for a particular construction project can also increase the cost or delay the progress of a project. Failures to complete construction according to specifications and quality standards on a timely basis may result in disputes, contract termination, liabilities and/or lower returns than anticipated on the construction project concerned. Such delays or failures to complete and/or unilateral termination of a project by customers may cause our turnover or profitability to be lower than what we have expected, which could result in a material adverse effect on our business, financial condition and results of operations.

***We may not be able to achieve our production plan or our sales targets.***

We have made certain forward-looking statements in this Information Memorandum relating to our planned completion of development projects. Our forecasts, after independent verification, were also used by CBRE in the preparation of the Valuation Report. We may not achieve this production plan as a result of a number of factors, including the risks described in this Information Memorandum. In particular, our plans for 2012 and beyond are especially susceptible to uncertainty and change. As a result of the economic downturn, the Russian economy in general and the real estate market in particular have been extremely volatile, making any plans or forecasts even more uncertain than is usually the case. Moreover, our sales largely depend on the success of the federal government in supporting the development of the residential mortgage market in Russia, which is beyond our control. Furthermore, the periods in which we complete our projects may not coincide with the actual recognition of revenues related to the projects in our financial statements.

In addition, some of our developments include a large number of residential buildings that are concentrated in certain neighborhoods in the Moscow Metropolitan Area, including Khimki and Mytishi. There can be no guarantee that we will be able to sell all of the residences in a particular development or neighborhood, particularly if market conditions deteriorate. Our failure to achieve our production plans or our sales targets could have a material adverse effect on our business, financial condition and results of operations.

***Our results of operations may be highly variable, which may adversely affect our ability to plan our budget or business activities.***

We have in the past experienced and may continue to experience significant variations in revenues and profits from period to period. These variations can generally be attributed to the fact that, at times, our revenues and profits from our development segment are earned upon the completion of a project. For example, we may have periods in which we complete and sell a large number of projects, which could generate high levels of revenues for that period, but we may have fewer projects in development, which could negatively affect revenues in future periods. In contrast, we may have periods in which we complete and sell only a small number of projects, which could generate lower revenues, but we may have a large number of projects in development, which could generate higher revenues in future periods. Accordingly, the types and amount of properties that we have sold in any particular period will have a significant effect on our results of operations and the sources and amount of our cash flow from operations. Such financial results may not be indicative of the relative medium-term contribution of each of our business segments to our overall business or of our overall financial condition or prospects. Our earnings also can be adversely affected if any particular project is not completed or is significantly delayed.

The effect of the timing of project delivery on our operational results is accentuated by the fact that during any particular period of time, we can only undertake a limited number of projects due to the substantial capital requirements for the acquisition of land and construction costs.

As a result, it may be difficult for us to report steady earnings growth and plan our budget and business activities on a period-to-period basis. Failure to achieve expected revenue in any fiscal period or unanticipated variations in the timing of recognition of specific revenues can cause significant variations in our results of operations from period-to-period and may in some future period result in losses.



***Our success depends on our senior management team and other key personnel, as well as on highly skilled employees that may be difficult to recruit and retain.***

Our ability to maintain our competitive position and to implement our business strategy is dependent on the services of our senior management team and other key personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. As a result, we may not be able to retain and attract qualified personnel to fill key positions. A loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success also depends in large part on our ability to attract, motivate and retain highly skilled real estate experts. Competition for skilled labor is intense in the Russian construction and development industry. The demand for skilled engineers, technicians, sales personnel, construction workers and operators of specialized equipment continues to increase, reflecting the significant demand from other industries and public infrastructure projects. Further increases in demand for skilled labor are likely to lead to increases in labor costs, and the resources required to attract and retain such personnel, which in turn may adversely affect our operating margins. As such, we may be unable to continue to attract and retain the skilled employees we require, and any inability to do so could adversely impact our ability to manage and complete our existing projects. In addition, the resources required to attract and retain such personnel may adversely affect our operating margins. The failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations.

***We expect to remain under the control of the Nafta Moskva Group.***

We believe that the Investment Group “Nafta Moskva” (the “**Nafta Moskva Group**”) and its ultimate beneficial owner Mr. Suleiman Kerimov control approximately 38.3% of our Ordinary Shares. The Nafta Moskva Group is a beneficial owner of Holborner Services Ltd. that owns approximately 20.0% of our Ordinary Shares, Brigantia Ltd. that owns approximately 16.8% of our Ordinary Shares and Lacero Trading Ltd. that owns approximately 1.5% of our Ordinary Shares. In connection with the debt restructuring, the Nafta Moskva Group pledged some of our Ordinary Shares indirectly held by it to the Group’s lenders. See also “*Material Contracts – Major Credit Agreements.*”

Also, the Ordinary Shares and GDRs held by Holborner Services Ltd. are subject to a call option in favor of Maritrade Investments Ltd. and Forienst Investments Ltd., entities controlled by our Founding Shareholders, while the Ordinary Shares held by Lacero Trading Ltd. are subject to rights of first refusal in favor of Maritrade Investments Ltd. and Forienst Investments Ltd. See “*General Information.*”

In addition, two members of our Board of Directors are officers or directors of the Nafta Moskva Group or its affiliates. See “*Directors, Management and Corporate Governance.*”

If the Nafta Moskva Group continues to hold a significant interest in us, it will be able to exercise significant influence over matters relating to us. For example, the Nafta Moskva Group will be able to exercise negative control by having veto rights with respect to a number of important corporate decisions including, but not limited to, decisions on amendment of our charter, reorganization, proposed substantial sale of assets or other major corporate transactions, election of the members of the Board of Directors, appointment of our senior managers, declaration of dividends and the determination of our policies.

***We have engaged in transactions with related parties that may present conflicts of interest; the terms of such transactions may be less favorable to us than terms that could be obtained in arm’s-length transactions.***

We have engaged in transactions with related parties. For example, we have engaged in transactions with Mr. Pisarev and Mr. Zhukov (together, the “**Founding Shareholders**”), directors and executive officers and companies controlled by them, including purchases and sales of equity interests and loan arrangements. Conflicts of interest may have arisen between our affiliates and us, potentially resulting in less favorable terms of such transactions than the terms that could have been determined by market forces.

For example, in April 2006, we entered into an agreement with Quinturin, a company affiliated with Mr. Zhukov, one of our Founding Shareholders, without a formal approval of such agreement as an interested party transaction, pursuant to which we made a loan to Quinturin in the principal amount of RUB 150 million maturing in 11 months and with an interest rate of 10% per annum. By several amendments to the loan agreement executed in 2006, 2007 and 2008, all of which were not formally

approved as interested party transactions, we agreed to increase the principal amount of the loan up to RUB 1,200 million and extend the maturity term to December 31, 2009. By an amendment executed in April 2009, we extended the maturity of the loan agreement to April 1, 2012 and increased the interest rate payable by Quinturin to 15% per annum. In December 2009, we entered into an amendment to the loan agreement with Quinturin, pursuant to which Quinturin delivered to us two promissory notes issued by PIK-Region in the total amount of approximately RUB176 million as partial repayment of the outstanding amount under the loan agreement. The loan agreement and all the amendments thereto (except for the amendment of December 2009) were challenged by Lacero Trading Ltd., one of our shareholders affiliated with the Nafta Moskva Group because they were not duly approved as interested-party transactions. In July 2010, the Moscow Arbitrazh Court declared that the amendment to the loan agreement executed in April 2009 was invalid, thereby invalidating the extension of the final maturity date from 2009 to 2012. In October 2010, the Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court. In December 2010, we filed a claim against Quinturin with the Moscow Arbitrazh Court demanding the repayment of the principal amount of the loan due to us, together with the accrued interest and penalties. In January 2011, the court granted our claim and ordered Quinturin to pay us the principal amount of RUB 1,029 million, accrued interest in the amount of RUB 205 million and penalties in a total amount of RUB 461 million. In February 2011, Quinturin filed an appeal with the Ninth Arbitrazh Court seeking to reverse the judgment of the Moscow Arbitrazh Court. In March 2011, we assigned our claims against Quinturin to Aniria Consulting Limited, a company not affiliated with us, for a total consideration of RUB 580 million. In May 2011, the Court terminated proceedings in this case because Aniria Consulting Limited abandoned its claim. See “*Related Party Transactions*”.

In August 2009, we sold our non-ferrous mining division through the sale of a 100% interest in our subsidiary PIK Nerud, which, in turn, held controlling interests in several other entities engaged in mining, processing and sales of raw materials, as a part of our plan to dispose of certain non-core assets to repay a portion of our indebtedness. We sold our non-ferrous mining division in a transaction approved by our Board of Directors (though not as an interested party transaction under Russian law) to one of our creditors, Lakebed Trading Limited, for a total consideration of USD 65 million (RUB 2,077 million). Lakebed Trading Limited paid USD 30 million in cash and delivered to us promissory notes issued by our subsidiary PIK-Region in the amount of USD 35 million. The total consideration exceeded the valuation of the disposed asset, which had been prepared by an internationally recognized firm performing independent appraisal services and on this basis the transaction was determined by the Company to be on an arm’s-length basis. This transaction resulted in a gain of RUB 1,193 million.

There can be no assurance that we will not enter into related party transactions, terms of which may be less favorable to us than terms that could be obtained in arm’s-length transactions. Agreements entered into by us with our related parties may also result in tensions among our shareholders. The occurrence of any of the above could adversely affect our business, financial condition and results of operations.

***In the event that the minority shareholders of our subsidiaries were to challenge successfully past or future interested party transactions or other transactions or were not to approve interested-party transactions or other transactions in the future, we could be limited in our operational flexibility.***

We own less than 100% of the shares in some of our subsidiaries. In addition, certain of our wholly-owned subsidiaries have had other shareholders in the past. Some of our subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other subsidiaries and affiliates. Russian law requires a joint stock company that enters into transactions with certain related persons, referred to as “interested party transactions”, to comply with special approval procedures. Under Russian law an interested party transaction is a transaction with an “interested party”, which is (i) a member of the board of directors (supervisory council) or the management board of a company, (ii) the CEO of the company, or the external manager or management company, (iii) any shareholder that, together with its affiliates, owns at least 20% of the company’s voting shares or (iv) a person that is entitled to give mandatory instructions to the company, if any of the foregoing persons, or any of these persons’ spouses, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively at least 20% of the shares in a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds office in any management body of a company (or in any management body of the managing company of such company) that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or

- is otherwise deemed an “interested party” under the company’s charter.

Under applicable Russian law, in a joint stock company with 1,000 shareholders or less with a right to vote, interested party transactions must be approved by a majority vote of disinterested directors of the company, or by a majority vote of disinterested shareholders of the company in the event that (i) the number of the disinterested directors of the company is not sufficient to constitute a quorum, (ii) the value of the transaction is equal to or exceeds 2% of the company’s assets as determined under Russian accounting standards as of the latest reporting date, or (iii) in case of certain share placements. If valid approval of the interested party transaction is not obtained, the transaction may be invalidated by a Russian court upon a motion by the company or any of its shareholders

Moreover, the provisions of the Russian law that define which transactions must be approved as “interested party” transactions are subject to different interpretations, and we cannot be certain that our and our subsidiaries’ application of these concepts will not be subject to challenge by former and current shareholders. See “— *We have engaged in transactions that could be challenged on the basis of non-compliance with applicable legal requirements, and any successful challenge could result in the invalidation of such transactions, loss of property, the imposition of other liabilities, fines, penalties or other sanctions or liquidation of members of our group that engaged in such transactions.*” Failure to obtain approvals for interested party transactions when required to do so or related claims brought by former or current shareholders could adversely affect our business, financial condition and results of operations.

***We have engaged in transactions that could be challenged on the basis of non-compliance with applicable legal requirements, and any successful challenge could result in the invalidation of such transactions, loss of property, the imposition of other liabilities, fines, penalties or other sanctions or liquidation of members of our group that engaged in such transactions.***

We and some of our subsidiaries, or their predecessors in interest, have taken a variety of actions relating to, among other things, valuation or acquisition of property and construction permits, share issuances, share disposals and acquisitions, interested-party transactions, major transactions and other corporate matters. Under Russian law, transactions may be invalidated on many grounds, including for example a sale of shares by a person without the right to dispose of such shares, breach of interested party transaction and/or major transaction rules or failure to register the share transfer in the securities register. Defects in earlier transactions may cause our interest arising from such transactions, including interests in PIK-Region, DSK-2, DSK-3 and 100 KGI, to be subject to challenge. If any transactions were successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties to such transactions, shareholders of the relevant group members or their predecessors in interest or any other interested party, it could result in the invalidation of such transactions, loss of property (including shares in our subsidiaries) or the imposition of other liabilities, which would materially adversely affect our business, financial condition and results of operations. Although no actions seeking to invalidate our subsidiaries’ corporate status, alleging non-compliance with applicable laws and regulations relating to the formation of our subsidiaries or challenging subsequent share transfers in our subsidiaries have been brought, there can be no assurance that such actions will not be brought in the future.

***Technical deficiencies in legal contracts that document certain of our projects may result in the recognition of such contracts as not having been concluded.***

Certain contracts entered into by us or our subsidiaries may not fully comply with certain express provisions of current legislation. For example, some construction contracts concluded by our subsidiary, MFS-PIK, do not contain price and other material terms. Such construction contracts may technically be challenged as not having been validly concluded due to the failure to state such material terms. If successfully challenged, these contracts will have no legal force and effect for commercial, accounting and tax purposes, which may have a material adverse effect on our operations and disrupt our business.

***We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.***

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We maintain insurance against some, but not all, potential risks and losses affecting our operations, and we cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also cannot assure you that insurance will continue to be available to us on commercially reasonable terms.

At present, we have no coverage for business interruption, third party liability in respect of property or environmental damage arising from accidents on our property or relating to our operations (except for liability insurance relating to the use of dangerous industrial sites, as required under Russian law), or for loss of key management personnel. If a major event were to affect one of our main production facilities, we could experience substantial property loss and significant disruptions in our production capacity or development activities, for which we may not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third party claim for damages may have a material adverse effect on our business, financial condition and results of operations.

***Our operations are subject to various risks and hazards associated with the nature of our production facilities and equipment.***

We use certain hazardous equipment and materials, such as tower cranes, trucks, concrete and reinforced concrete. While we maintain insurance policies that cover potential accidents at dangerous industrial sites, as required under Russian law, there can be no guarantee that we will have appropriate insurance to cover any potential claims, if at all. See “— *We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.*” Moreover, we may also experience material shutdowns or periods of reduced production because of accidents, labor disputes and equipment failure, among other things, as well as monetary losses and possible legal claims arising from such incidents, any of which could adversely affect our business, financial condition or results of operations.

***More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the Russian regions where we operate may have a material adverse effect on our results of operations and we may be subject to environmental liabilities in connection with certain properties owned and/or leased by us.***

Construction and development companies in Russia, including us, are subject to various federal, regional and local environmental laws, ordinances and regulations which establish (i) requirements for obtaining specific permits and administrative approvals, (ii) certain restrictions and encumbrances on the properties held and/or developed, and (iii) liabilities for violations of environmental legislation, as well as for damage caused to the environment, including site contamination.

In connection with our development projects, we are required to obtain numerous permits and approvals from various environmental protection authorities, including an assessment of the environmental impact of the project by the government’s environmental experts. These requirements may hinder, delay or increase the costs of our projects.

Furthermore, environmental laws and regulations impose certain restrictions and encumbrances on the properties that we hold and/or develop. For example, some of our land plots under development are located in areas that have special environmental protection, such as prohibitions against cutting down trees, rules regulating the storage of construction waste and, in certain circumstances, the outright prohibition of any construction activities on certain parts of the land plot (e.g., territories bordering a waterline). In addition, the development of a project may be subject to certain obligations, including, among other things, planting of greenery and clean-up measures. These requirements may be costly and time consuming and may result in delays in the commencement or continuation of development of our projects. See also “— *Risks Relating to Real Estate Development — We are subject to numerous development, construction and investment risks inherent in real estate development*” and “— *Risks Relating to Real Estate Development — Our projects may be subject to delay, non-completion and financial loss.*”

We believe that our current legal and regulatory compliance programs adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, if our compliance with current and future environmental laws and regulations is challenged or we are deemed to have violated these requirements, remedying these violations could require material expenditures by us, which could materially adversely affect our business, financial condition and results of operations.

In addition, we may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a property owned or leased by us. In addition to these costs, which may be substantial, our ability to sell or lease the contaminated property or to borrow using such property as security may be substantially hindered. According to Russian law, we may be obligated to pay a governmental entity or third party for property damage and for the investigation and clean-up costs incurred by such parties in connection with the contamination. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. We generally commission

environmental assessments of properties that we acquire in order to identify and minimize potential environmental liabilities. However, such assessments may not reveal all environmental liabilities at, or potentially affecting, these properties.

Any of these requirements, restrictions or liabilities could materially adversely affect our business, financial condition and results of operations.

***The implementation by the Russian government of a law requiring companies to purchase or lease the land on which they operate may have a material adverse effect on our business, financial condition and results of operations.***

Most of the land occupied by privatized Russian companies, including 100 KGI, was not included in the privatization plan for the properties of these companies and is still owned by federal, regional or local governments. The companies use the land pursuant to a special right of perpetual use whereby they have the right to use the land but do not have the right to dispose of such land.

Under the Land Code of the Russian Federation (the “**Land Code**”), legal entities generally have: (1) ownership; (2) right of free use for a fixed term; or (3) lease over land plots. Legal entities may continue to enjoy the right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law on the Introduction of the Land Code requires legal entities using land pursuant to the right of perpetual use (excluding certain state-owned enterprises and state and local authorities) either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant government or locality that owns the land by January 1, 2012. If this requirement is not amended prior to implementation, we will be required to make significant expenditures that may have a material adverse effect on our business, financial condition and results of operations.

***Russian legal entities may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.***

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its technical non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity, or non-compliance by a Russian legal entity with provisions of Russian law, have been used by Russian courts as a basis for liquidation of that legal entity. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that a company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of a company or its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation, which held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and that consideration should be given to whether the liquidation would be an adequate sanction for such violations.

In accordance with Russian legislation, if the net assets of a Russian limited liability company (determined in accordance with the Russian Accounting Standards) fall below its charter capital at the end of its second financial year or any subsequent financial year, the limited liability company is required to decrease its charter capital to match the net assets. If the net assets of a Russian joint stock company (determined in accordance with the Russian Accounting Standards) fall below its charter capital at the end of its third financial year or any subsequent financial year, the joint stock company is required either to decrease its charter capital to match the net assets or liquidate. In addition, if the net assets of a Russian company (both a limited liability company and a joint stock company) at the end of its second or any subsequent financial year fall below the statutory minimum charter capital, the company must voluntarily liquidate. If a company fails to comply with either of the requirements stated above within the required period of time after the end of the relevant financial year, the company’s creditors may accelerate their claims and require the company to perform its obligations early and pay damages, and governmental authorities may seek the involuntary liquidation of the company. A court may refuse to satisfy a creditor’s claim if the company establishes that: (i) a decrease in the net assets does not violate the creditor’s rights; or (ii) the obligation is adequately secured.

Historically, our subsidiaries had net assets below the minimum legal requirements. Currently, there are also still certain subsidiaries, including Eurosystems, Veistoun, Zagorodnaya Usadba, SIR-NN and Stroyzhilinvest 16, with amount of their net assets below the statutory minimum charter capital and several subsidiaries, including NSS, Pulkovo Estate, Stroybusinesscenter and Mayak, with amount of their net assets below their charter capital. We are currently taking steps to remedy this technical violation. As these subsidiaries continue to meet their obligations to creditors, we believe that the risk of their liquidation is limited. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If an involuntary

liquidation were to occur, then we may be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations.

***We may be adversely affected if our ownership structure is challenged or indebtedness of our subsidiaries is accelerated based on certain formal requirements of Russian corporate legislation.***

A number of our subsidiaries are 100% owned by us indirectly, through other wholly owned subsidiaries. Such ownership structure may be deemed to violate certain formal requirements of Russian corporate legislation. The Civil Code contains a restriction on “chain ownership”: a company may not have a “one-man company” (a company with one shareholder) as its sole shareholder. If a violation of such restriction is recognized as a gross violation of law that cannot be remedied, some of our subsidiaries may be subsequently liquidated and, as a result, our business, financial condition and results of operations may be adversely affected.

Moreover, some of our subsidiaries have no legal title to or other right to occupy premises indicated as their registered offices. Although this is not itself a legal ground for liquidation of such companies or imposition of any material sanctions on them, authorities may consider such lack of title to be an indication that such subsidiaries engage in illegal activities and could initiate formal investigations that could affect our reputation and disrupt the activities of such subsidiaries.

From time to time, we may merge certain subsidiaries for operational reasons. Under Russian law, such mergers would be considered a “reorganization” and the merged subsidiaries would be required to notify their creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate the merged subsidiaries’ indebtedness and demand compensation for all related losses. In the event that we decide to undertake any such merger and all or part of certain of our subsidiaries’ indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment, and our business, financial condition and results of operations could be materially adversely affected.

***In the event that deficiencies or ambiguities in privatization legislation are exploited to challenge our ownership in our privatized subsidiaries, land and other assets and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or these assets.***

Our business includes a number of privatized companies, including DSK-2, DSK-3, 100 KGI and 480 KGI. We may acquire additional interests in privatized companies, land and other assets. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow Government the right to adopt its own privatization procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that should have been regulated by the federal law. While this court ruling in theory did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

The statute of limitations currently in effect for substantive challenges to most privatization transactions is three years and we believe the statute of limitations has expired in respect of each of DSK-2, DSK-3, 100 KGI and 480 KGI. However, the Russian Government or any other interested party may try to challenge a privatization at any time on the grounds of technical or other violations. Any such challenges, if successful, could materially adversely affect our production capacity or market share and have a negative impact on our business, financial condition and results of operations.

***Our results of operations could be adversely affected by currency fluctuations.***

Our presentation and functional currency is the Russian Rouble. We are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Rouble. The currency in which these transactions are denominated primarily is the U.S. dollar. As of June 30, 2011, RUB 4,158 million of our borrowings were denominated in U.S. dollars and RUB 39,764 million of our borrowings were denominated in Roubles. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Qualitative Disclosures about Market Risks - Currency Risk*”. Accordingly, the depreciation of the Rouble against the U.S. dollar would increase the Rouble equivalent of our borrowings and the associated interest payable denominated in U.S. dollars. Interest on the borrowings is denominated in currencies that often match the cash flows generated by our underlying operations, which provides an economic hedge and no derivatives are

entered into. Nevertheless, our results of operations are subject to exchange rate fluctuations, which may have a material adverse effect on our business, financial condition and results of operations.

## **Risks Relating to the Russian Federation**

### **Economic Risks**

*Emerging markets such as Russia are generally subject to greater risks than more developed markets, including significant legal, economic and political risks; fluctuations in the global economy could materially adversely affect the Russian economy.*

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of Russia are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, you should exercise particular care in evaluating the risks involved.

Russia's lack of experience with a market economy compared to more developed economies poses numerous risks. The failure to perform contractual obligations is widespread among Russian businesses and the government. Furthermore, it is difficult for us to gauge the creditworthiness of some of our customers, as there are no reliable mechanisms, such as reliable credit reports or credit databases, for evaluating their financial condition.

Russia's economy is more volatile than developed market economies and is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, increase the cost of borrowing for the Russian Government and Russian companies, including us, and adversely affect the Russian economy. The markets in Russia have been highly volatile during the recent economic downturn, causing market regulators to temporarily suspend trading multiple times on the MICEX and RTS stock exchanges, which have experienced significant overall declines during the second half of 2008 and early 2009. See also "*Economic instability in Russia could adversely affect our business.*"

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in world commodity prices, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008, only to recover approximately 117% in the second half of 2009. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

### *Economic instability in Russia could adversely affect our business.*

Since the dissolution of the Soviet Union in the early 1990's, the Russian economy has experienced at various times:

- significant declines in GDP and consumption;
- hyperinflation;
- an unstable currency;
- high government debt relative to GDP;
- a weak banking system providing limited liquidity to domestic enterprises and unstable credit conditions;
- a large number of loss making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;

- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy in the past was subject to abrupt downturns, for example, in August 1998, which led to, *inter alia*, an immediate and severe devaluation of the Rouble, a sharp increase in the rate of inflation and the near collapse of the Russian banking sector. From April through July 2004, the Russian banking sector again experienced serious turmoil. As a result of various market rumors and, in some cases, certain regulatory and liquidity problems, several privately owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. Several of these privately-owned Russian banks collapsed or severely limited or ceased their operations.

From 2000 through the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the Rouble, a reduction in inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government achieved budget surpluses and accumulated a sizeable “stabilisation fund,” providing a certain degree of economic soundness. The Russian economy has been adversely affected, however, by the recent economic downturn and led to extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. The impact of the economic downturn on the Russian economy led to, among other things, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the U.S. dollar and Euro and the rise of unemployment. There can be no assurance that the measures adopted by the Russian government to ameliorate the effect of the economic downturn will result in a sustained recovery of the Russian economy. Moreover, any future deterioration of the international economic situation may lead to a worsening of the economic situation in Russia, and, as a result, is likely to adversely affect the profitability of our business.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for various products, including those rendered by us, and therefore could have a material adverse effect on our business, results of operations, financial condition and prospects.

The Russian Government is taking steps to support the national economy, however, there can be no assurance that the measures adopted by the Russian Government to reduce the negative effect of the economic downturn will result in a quick recovery of the Russian economy.

***The Russian banking system remains underdeveloped, which could place severe liquidity constraints on our business.***

Russia’s banking and other financial systems are less developed and regulated in comparison with other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial downturn resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. In addition, in 2004, the CBR revoked the licenses of some Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Several privately owned Russian banks collapsed or severely limited or ceased their operations. However, Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

From 2005 and through the first half of 2008, Russian banks significantly increased their lending operations, which was often accompanied by a deterioration in the credit quality of the borrowers. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, made the banking sector extremely susceptible to market downturns or economic slowdowns. Therefore, the impact of the economic downturn on the Russian banking sector manifested itself in a rapid decrease in lending by Russian banks, while the lending terms became more onerous. For example, according to the CBR, the aggregate amount of new mortgage loans made to Russian borrowers in 2008 (at the December 31,



2008 RUB/U.S. dollar exchange rate) was approximately USD 25 billion, which is more than twelve times the aggregate amount of new mortgage loans made to Russian borrowers in 2004. However, as a result of the economic downturn and deterioration of the mortgage-backed securities markets, the amount of new mortgages in 2009 shrank to USD 6 billion (at the December 31, 2009 RUB/U.S. dollar exchange rate).

The recent economic downturn led to the collapse or bailout of some Russian banks and to significant liquidity constraints for others. Profitability levels of most Russian banks have been adversely affected. As a result, many Russian companies are subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources. The economic downturn has prompted the government to inject substantial funds into the banking system amid reports of difficulties among Russian banks and other financial institutions, and to support the largest borrowers (companies of strategic importance to Russian economy) to prevent their insolvency as a result of insufficient liquidity in the banking sector.

We hold the bulk of our excess Rouble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. We generally conduct our banking relationships with, and maintain accounts in, a relatively small number of banks. Most of our accounts are in Sberbank, but we also have accounts in VTB, Nomos-Bank, Raiffeisen Bank, Morgan Stanley and Nomura. There are few, if any, safe Rouble-denominated instruments in which we may invest the excess Rouble cash. The continuation or worsening of the banking downturn leading to the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

***Inflation could increase our costs and decrease operating margins.***

The Russian economy has been characterized by high rates of inflation. Although inflation in Russia subsided to 9.0% in 2006, it increased to 11.9% in 2007 and 13.3% in 2008 before decreasing to 8.8% both in 2009 and 2010 (based on Rosstat data). As we tend to experience inflation driven increases in certain of our costs, including salaries, rents and energy costs, which are sensitive to rises in the general price levels in Russia, our costs generally will rise as a result of inflation. In order to maintain the same level of profitability we have to increase the prices for our products and services. Our revenues are denominated in Roubles, such that the depreciation of the Rouble against foreign currencies that often accompanies inflation will not compensate for our increased costs. However, due to competitive pressures or other factors, we may not be able to raise the prices we charge for our developments sufficiently to offset such increases and thereby to preserve our operating margins. Accordingly, high rates of inflation in Russia could adversely affect our financial condition and results of operations.

***We could experience disruptions in our normal business activities as a result of problems associated with Russia's physical infrastructure.***

Much of Russia's physical infrastructure dates back to Soviet times and has not been adequately funded or maintained over the past decades. Particularly affected are the power generation and transmission, communication systems, building stock and rail, road and pipeline networks. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt normal business activity. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements.

The Russian Government is actively pursuing plans to reorganize the nation's rail, electricity and telephone systems. These reorganizations may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, all of which could have a material adverse effect on our business, results of operations, financial condition, prospects and the value of investments in our securities.

**Risks Related to the Political and Social Environment in Russia**

***Political and governmental instability in Russia could materially adversely affect our business, financial condition and results of operations.***

Since 1991, Russia has sought to transform itself from a one party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by particular social and ethnic groups.

The composition of the Russian Government has at times been highly unstable. Six different prime ministers, for example, headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned and Vladimir Putin, Mr. Yeltsin's chosen successor, was subsequently elected President on March 26, 2000. In May 2008, Mr. Putin's chosen successor, Dmitry Medvedev, was inaugurated as President, and Mr. Putin became the Prime Minister.

Pursuant to legislation that took effect on December 15, 2004, the heads of the sub-federal political units are nominated by the President of the Russian Federation and then approved by the region's legislative body. Pursuant to legislation that took effect on December 7, 2006, single-member-district elections for the State Duma, the lower house of Russia's parliament, were eliminated, and all votes are instead cast on a party-list basis. The most recent State Duma elections held in December 2007 resulted in a further increase in the share of the aggregate vote received by the United Russia, a political party whose chairman is Mr. Putin, and other political parties allied with it, bringing that percentage to more than two thirds.

Although a significant degree of continuity appears to have been maintained between two administrations due, in large part, to the appointment of Mr. Putin as Russia's Prime Minister, there can be no assurance that significant changes in the economic and political environment will not occur. Future changes in government, major policy shifts or lack of consensus among President Medvedev, Prime Minister Putin, Russia's parliament, regional governors and legislatures and powerful economic groups could also disrupt or reverse economic and regulatory reforms. Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with powerful economic groups could have a material adverse effect on our business, financial condition and results of operations.

Russia has recently adopted a more assertive approach to the definition and pursuit of its international interests. Over the past several years, Russia has been involved in conflicts, both economic and military, with other countries, including members of the CIS. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia has resulted in the deterioration of Russia's relations with certain other countries. The Russian securities exchanges experienced heightened volatility, capital outflow and significant overall price declines following these events. The emergence of new or escalated tensions between Russia and other countries, or the imposition of economic or other sanctions in response to the tensions, could negatively affect economics, the investment environment and overall consumer confidence in the CIS region, including the Russian economy. This, in turn, could have a material adverse effect on our business, financial condition and results of operations.

***Conflicts and tensions between central and regional authorities and other political conflicts could create an uncertain operating environment hindering our long term planning ability.***

The Russian Federation is a federation of sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the sub-federal political units and the federal government is, in many instances, unclear and remains contested. The balance of authority between the federal government and sub-federal units has, with some exceptions, stabilized in recent years and delineation of authority and jurisdiction is now based primarily on provisions of federal law.

Prior to December 15, 2004, the heads of the sub-federal political units of the Russian Federation were directly elected by the residents of the relevant region. However, pursuant to Federal Law No. 184-FZ "On General Principles of Organization of Legislative (Representative) and Executive Bodies of Sub-Federal Political Units of the Russian Federation" dated October 6, 1999 (as amended on July 27, 2006), the heads of the sub-federal political units, including the Mayor of Moscow and the Governor of the Moscow region, are now nominated by the President of the Russian Federation and then confirmed by the region's legislative body. They may also be dismissed by the decision of the President of the Russian Federation. In March 2005, President Putin first exercised this authority, dismissing Vladimir Loginov as the governor of Koryaksky autonomous district after the region suffered a heating shortage. In September 2010, President Medvedev dismissed Yuri Luzhkov, who has been the Mayor of Moscow since 1992, and nominated Sergei Sobyenin, former Deputy Prime Minister and the Chief of Staff of the Russian Government, for this office. In October 2010, Sergei Sobyenin became the Mayor of Moscow after the confirmation of his authority by the Moscow City Duma. Sergei Sobyenin, who was not a member of the Moscow Government before his appointment, announced his plans to critically review and revise a number of key policies of the Moscow Government, including policies related to development and construction.

The Russian political system remains vulnerable to tension and conflict between federal and regional authorities, and between different authorities within the federal government over various issues, including tax revenues, authority for regulatory matters and regional autonomy. Lack of consensus between the federal government and local or regional authorities could result in the

enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy, which could have a material adverse effect on our business, financial condition and results of operations.

***Military conflicts and terrorist attacks in Russia may have significant political consequences and cause disruptions to domestic commerce and exports from Russia.***

Ethnic, religious, historical and other divisions have, on occasion, given rise to tensions, and in certain cases, to military conflict, such as the conflict in Chechnya, which brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in the Northern Caucasus region are regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict spread to other parts of Russia, and several terrorist attacks were carried out by terrorists from that region in Moscow. In March 2010, two explosions in the Moscow subway resulted in 40 people being killed and many injured. In 2010, several cities in the republic of Dagestan, the republic of Kabardino-Balkaria, the republic of Ingushetiya, the republic of Northern Ossetia and in the Stavropol region of Russia suffered from terrorist attacks, explosions and bombings. In July 2010, as a result of a terrorist attack, operations of Baksanskaya Hydroelectric Power Plant in the republic of Kabardino-Balkaria were suspended. In October 2010, terrorists attempted an attack on the regional parliament of the republic of Chechnya. On January 24, 2011, a terrorist attack resulted in numerous casualties when a bomb exploded at one of the Moscow's busiest international airports. These acts of terror, many of which were reportedly committed by suicide bombers, have renewed the chain of violence stemming from the ethnic conflicts in the Northern Caucasus region. Fresh acts of violence, including terrorist attacks and suicide bombings, or the spread of unrest to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business, financial condition and results of operations.

***Crime and corruption could disrupt our ability to conduct our business, we may be accused of alleged participation in corrupt or illegal business activities.***

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press has reported that significant organized criminal activity has arisen, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the Russian media regularly publish disparaging articles in return for payment.

We have at times been the subject of accusations, including speculation in the press, relating to certain of our business activities. For instance, we have received negative publicity surrounding our acquisitions of KSRZ and 480 KGI. Such accusations or claims could disrupt our ability to conduct our business effectively and could thus materially adversely affect our business, financial condition and results of operations.

***Social instability could adversely affect our ability to conduct our business effectively.***

Public dissatisfaction with the results of privatizations in the 1990s and perceived unfairness in the distribution of wealth; weakness of the trade union and judicial systems, which often failed to ensure full and regular payment of salaries by private enterprises; changes in government-funded benefits and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living in Russia have led in the past, and could lead in the future, to labor and social unrest and increased support for a renewal of centralized authority, renationalization and governmental control of key industries, increased nationalism, restrictions on foreign involvement in the Russian economy and increased violence.

For example, in 2005, Russian pensioners organized street protests against government proposals to monetize in-kind benefits. Further, in June of 2009, a workers' protest in the single-factory town of Pikalyovo demanding unpaid wages as well as the resumption of the operations of Bazelcement, the town's only industrial site, resulted in the blockage of a part of the federal

highway in the Leningrad region and the subsequent involvement of Prime Minister Vladimir Putin. These protests periodically blocked highways and streets in major Russian cities. Any of these or similar consequences of social instability could restrict our operations and lead to a decrease in revenue, materially adversely affecting our business, financial condition and results of operations.

Low birth rates and life expectancies in Russia are expected to result in significant declines in the population over the next few decades. These declines, combined with increasing immigration, could pose significant risks to political and social stability in Russia.

***Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.***

The official data published by Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in more economically developed countries. Additionally, we rely on and refer to information and statistics from various third-party sources and our own internal estimates. For example, substantially all the information contained in this Information Memorandum concerning our competitors has been derived from publicly available information, including press releases. We believe that these sources and estimates are reliable, but we have not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia in this Information Memorandum is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

**Risks Related to the Legal and Regulatory Environment in Russia**

***Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity in Russia.***

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system, many of which do not exist in countries with more developed market economies, create uncertainty with respect to the legal and business decisions that we make:

- inconsistencies between and among the Russian Constitution, federal legislative acts, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations, especially with regard to town planning, construction, zoning and land rights;
- limited judicial and administrative guidance on interpreting legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations for certain legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- lack of an independent judiciary;
- corruption within the judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions; and
- bankruptcy procedures that are not well-developed and are subject to abuse.

Amendments to several Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in countries with more developed legal

systems. Furthermore, we cannot assure you that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not adversely affect foreign investors (or private investors generally).

We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations. Russian legislation often provides for implementing administrative regulations, many of which have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. Many legislative acts often contain general statements of principles rather than a specific guidance to implementation, and government officials may be delegated or exercise broad authority in determining matters of significance. Such authority may be exercised in an unpredictable way, and effective appeal processes may not be available. Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable, up-to-date texts of laws and regulations at the regional and local levels may not always be available and are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

All of these weaknesses could affect our ability to enforce our rights, or to defend ourselves against claims by others, which may have a material adverse effect on our business, financial condition and results of operations, and could affect enforcement of any rights of holders of our securities against us.

***The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us or holders of the Ordinary Shares and GDRs from obtaining effective redress in a court proceeding.***

The independence of the judicial system remains largely untested. The court system in the Russian Federation is understaffed and under-funded and not immune to external influences. Judges and the courts in the Russian Federation are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. We may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience of the courts in the Russian Federation in enforcing these provisions and due to political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the Group's business, results of operations, financial condition, and prospects.

***Russia's unpredictable acknowledgement and enforcement of foreign court judgments or arbitral awards give rise to significant uncertainties.***

Russia is not a party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments, and federal law does not generally provide for the recognition and enforcement of foreign court judgments, although foreign court judgments are sometimes recognized and enforced by Russian courts on the basis of reciprocity, if courts of the country where the foreign judgment was rendered have previously enforced judgments issued by Russian courts. The existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether in the future a Russian court will recognize and enforce a judgment issued by a foreign court on the basis of reciprocity. Consequently, should a judgment be obtained from a foreign court, it may not be given direct effect in Russian courts.

However, Russia is a party to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards of 10 June 1958. A foreign arbitral award obtained in a jurisdiction that is a party to the New York Convention should be recognized and enforced by a Russian court, subject to the qualifications provided for in the New York Convention and compliance with Russian rules of civil procedure and applicable Russian law. There is also a risk that Russian rules of civil procedure will be amended to introduce further grounds preventing foreign court judgments and arbitral awards from being recognized and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of

understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

***Selective or arbitrary government action may have a material adverse effect on our business, financial condition and results of operations.***

Governmental authorities in Russia have a high degree of discretion and, at times, exercise their discretion selectively or arbitrarily, without a hearing or prior notice, and sometimes in a manner that is inconsistent with or contrary to law or influenced by political or commercial considerations.

Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, criminal prosecutions and civil actions. In addition, recently, the Russian tax authorities have aggressively brought tax evasion claims against certain Russian companies for their use of tax optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

Claims brought by the Russian authorities against several major Russian companies have raised questions regarding the progress of the market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy, over and above the recent general market turmoil. Any similar actions by the Russian authorities that result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities. Unlawful, selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition and results of operations.

***Lack of developed corporate and securities laws and regulations in Russia could limit our ability to attract future investment.***

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States or the European Union. Many Russian securities regulations have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance of the Russian Federation;
- the FAS;
- the CBR; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, our ability to attract future investment may be limited, which could have a

material adverse effect on our business, financial condition and results of operations or the liquidity or market price of our securities.

***There may be difficulties in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered.***

Following the dissolution of the Soviet Union, land reform commenced in Russia and real estate legislation changed continually during subsequent years. More than 100 federal laws, presidential decrees and governmental resolutions were issued and almost all Russian regions passed their own real estate legislation. For more than a decade, land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land. In 2001, the Civil Code was amended and the new Land Code, as well as a number of other federal laws regulating the acquisition of land, land use and ownership, were enacted. Nevertheless, the legal framework relating to the transfers of title to land and the use of land and other real property in Russia is not yet sufficiently developed to serve, *inter alia*, as a clear guidance on the process of acquisition of ownership title to land (including the process of privatization) to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia as well as the existing encumbrances of such land or property. As a result, we may not have properly obtained or registered the rights to our land plots and buildings located thereon. These uncertainties may have a material adverse effect on our business, financial condition and results of operations.

***Laws restricting foreign investment could materially adversely affect our business.***

We could be materially adversely affected by the adoption of new laws or regulations restricting foreign participation in Russian companies. On May 7, 2008, Federal Law No. 57-FZ “On the Procedure for Carrying out Foreign Investments in Enterprises Strategically Important for Ensuring Defense and State Security”, dated April 29, 2008 (the “**Law on Enterprises Important for State Security**”) came into force. The Law on Enterprises Important for State Security restricts the level of foreign investment in certain sectors of the Russian economy considered to be of principal importance for state security. Participation of foreign investors in companies that fall under the definition of enterprises important for state security would require preliminary approval of the Federal Government. We and all members of our group are not deemed to be enterprises important for state security for the purposes of the Law on Enterprises Important for State Security and are not subject to restrictions imposed by the Law on Enterprises Important for State Security at present. However, should the above-mentioned restriction on foreign investment become applicable to us, it could limit our ability to raise equity financing in foreign capital markets or consummate strategic transactions in the future and, therefore, it may have a material adverse effect on our business, financial condition and results of operations.

***Corporate governance standards in Russia are not as developed as those in Western Europe and the United States, and there is little minority shareholder protection in Russia.***

Although we comply with the corporate governance standards of the Russian Federation, such corporate governance standards in Russia are not of the same standard as corporate governance standards in Western European countries or in the United States and may provide less protection for investors than would be provided by corporate governance requirements that apply in Western Europe or the United States. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders’ rights.

And, despite recent amendments to the Federal Law No. 208-FZ “On Joint Stock Companies” (the “**Joint Stock Companies Law**”), minority shareholders possess only a limited ability under Russian law to protect their rights against majority shareholders.

In addition, as with other areas of Russian law, Russian corporate law concepts are at times subject to inconsistent interpretation and application by the courts. See “— *Risks Related to the Legal and Regulatory Environment in Russia — Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity in Russia*”. For example, there are conflicting interpretations as to when shareholder approval of a transaction is required as a “major transaction” or, alternatively, when the transaction may be validly authorized by a decision of the company’s appointed officers. Accordingly, the Group may be subject to an increased burden in seeking to comply with all reasonably possible interpretations of such requirements or may find itself in formal non-compliance with such requirements. The uncertainties mentioned above may have a material adverse effect on the Group’s business, financial condition, results of operation, prospects and the value of our securities.

***Shareholders' appraisal rights under Russian law may impose additional costs on us.***

The Joint Stock Companies Law provides that shareholders who voted against or did not participate in voting on certain matters have the right to sell their shares to the company at market value, as determined in accordance with Russian law. The decisions that trigger this right to sell shares include the approval of:

- any reorganization (for example, merger, consolidation or change of the form of legal entity);
- any "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the book value of our assets calculated according to RAS, regardless of whether the transaction is actually consummated; and
- any amendment of our charter that restricts the shareholders' rights.

Our (or, as the case may be, our subsidiaries') obligation to purchase the shares in these instances would be limited to 10% of our net assets, calculated according to RAS, at the time the matter at issue is voted upon. Our obligation to purchase shares, as well as similar obligations of our subsidiaries that have minority shareholders, in these circumstances could have an adverse effect on our business, financial condition and results of operations.

***Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.***

In accordance with the Civil Code and federal legislation on joint stock companies and limited liability companies, shareholders (participants) in a Russian joint stock company (limited liability company) are not liable for the obligations of the joint stock company (limited liability company) and bear only the risk of loss of their investment. This may not be the case, however, when one entity is entitled to direct the decisions made by another entity. The entity that is able to direct such decisions is referred to as a "parent." The entity whose decisions are directed by a parent is referred to as a "subsidiary." The parent is jointly and severally liable for transactions entered into by the subsidiary pursuant to such directions if:

- the right to direct the decisions of a subsidiary is set forth in such subsidiary's charter or in a contract between such entities; and
- the parent gives binding directions to the subsidiary.

Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, financial condition and results of operations.

In addition, a parent may be secondarily liable for its subsidiary's debts if such subsidiary becomes insolvent or bankrupt as a result of action taken or failure to act at the direction of its parent if the parent knew (or, if the subsidiary is a limited liability company, should have known) that as a result of such directions the subsidiary would become insolvent. This rule applies irrespective of the source of the parent's authority to direct the decisions of the subsidiary. For example, this liability could arise through ownership of voting securities or by contract. Other shareholders of the subsidiary may claim compensation for the subsidiary's losses from the parent that caused the subsidiary to take action or to refrain from taking action if the parent knew (or, if the subsidiary is a limited liability company, should have known) that such action or failure to take action would result in losses. On January 26, 2006, the Arbitrazh Court of the Moscow region, reviewing a case on appeal, rendered a decision that imposed a liability on the shareholders of a bankrupt company. Accordingly, in our position as a parent company, we could be liable in some cases for the debts of our Russian subsidiaries. The total liabilities of our Russian subsidiaries, as of June 30, 2011, were RUB 70,570 billion. This potential shareholder liability, which, where applicable, is joint and several with the liability of the subsidiary, could have a material adverse effect on our business, financial condition and results of operations.

***The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Ordinary Shares.***

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia.



Share registers are currently maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision.

Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. See *"Description of Share Capital and Certain Requirements of Russian Legislation — Registration, Transfer and Pledge of Shares"* for a further discussion of the share registration system and registrars in the Russian Federation.

***The Russian tax system imposes substantial burdens on us and is subject to frequent change and significant uncertainty.***

We are subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to corporate profits tax, value added tax, corporate property tax, social security contributions (replacing as of 2010 Russian unified social tax and contributions for obligatory pension insurance). Laws related to the above taxes and contributions, including the Tax Code of the Russian Federation (the "**Tax Code**"), have been in force for a short period relative to tax laws in more developed market economies, and implementation of these tax laws is often unclear or inconsistent, resulting in inconsistent enforcement at the federal, regional and local levels. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the interpretation of existing laws by the authorities.

Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the government and within government ministries and state services, such as the Federal Tax Service of the Russian Federation and its various inspectorates, creating uncertainties and areas of conflict. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. The Russian tax system is therefore impeded by the fact that it still relies heavily on, at times, inconsistent judgments of local tax officials and fails to address many of its existing problems. Furthermore, during the past several years the tax authorities have shown a tendency of taking more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax charges issued as a result of tax audits.

Uncertainties and inconsistent enforcement of tax regulations and the assertive positions of the tax authorities in interpreting legislation may result in our tax compliance being challenged. In particular, we have entered into transactions with various suppliers in which we did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing Russian tax practice, if the tax compliance of such entities is challenged, we may become liable for additional tax payments. We do not believe it is practicable to estimate the financial effect of potential tax liabilities that ultimately could be imposed on us due to transactions with suppliers, and we have not provided any amounts in respect of such obligations in our consolidated financial statements. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material. See also additional disclosure on our taxation contingencies in *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Provisions and Contingencies."*

We have in the past engaged in certain transactions that might be challenged by the Russian tax authorities as having the additional benefit of lowering our tax obligations. Russian law does not prohibit transactions that may result in reduced amount of Russian tax liability when the transaction also constitutes a legitimate business or commercial transaction. On October 12, 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued Ruling No. 53 clarifying that taxpayers are not entitled to receive an "unjustified" tax benefit, which is described in the ruling by reference to specific circumstances, such as an absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterization of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Ruling might have been to combat abuse of tax laws, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court. See *"— Risks Relating to the Russian Federation — Risks Related to the Legal and Regulatory Environment in Russia — We may be deemed to receive unjustified tax benefits"*.

We have purchased certain companies and material real estate from third party sellers in complex transactions that may be considered by tax authorities to have been structured by the sellers to maximize their tax efficiency. Also, we have made use of certain financial arrangements that could be challenged by tax authorities on similar grounds. The relevant authorities may attempt to challenge these transactions or financial arrangements with the third parties and bring charges against us for engaging in such activity. This may result in the imposition of liabilities, including fines or penalties, on members of our group and criminal prosecution of our officers, which could have a material adverse effect on our business, financial condition and results of operations.

Russian tax authorities may scrutinize a chain of sales transactions that involve different purchase prices being paid for the same shares or assets in the chain of transactions. The tax authorities may attempt to assess additional taxes, interest and penalties to the parties in the chain of transactions who, in the opinion of the tax authorities, have been underpaid and as a result have reduced their tax obligations if the tax authorities decide such counterparty has been aiding and abetting the underpayment of taxes. If the Russian tax authorities successfully challenge these transactions, this may result in us being liable for additional taxes, interest and penalties for us. Any attempt by Russian authorities to pursue an action against us or our management or to assess any tax liabilities, including any fines, penalties, criminal prosecution or other sanctions for any back taxes that may have been payable could have a material adverse effect on our reputation, business, financial condition and results of operations.

Russian tax legislation is also subject to further changes, which can sometimes result in the introduction of additional taxes. As mentioned above, starting from January 1, 2010, the unified social tax was replaced with direct mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund, and, following a one-year transition period during which the overall rate of the contributions will not exceed the maximum unified social tax rate of 26%, the overall rate will increase to 34%. Such measures could affect the overall tax efficiency of our operations and result in additional tax liabilities. Additional tax exposure could have a material adverse effect on our business, financial condition and results of operations.

There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, as well as the potential for state budget deficit, increase the risk of the imposition of additional taxes on us. The introduction of new taxes or amendments to current taxation rules may have a substantial impact on the overall amount of our tax liabilities. There is no assurance that we would not be required to make substantially larger tax payments in the future, which may adversely affect our business, financial condition and results of operations.

***We and our subsidiaries are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities.***

Tax returns, together with related documentation, are subject to review and investigation by the tax authorities, which may impose penalties and interest charges. Generally, tax authorities may commence tax audit for any tax period within three years preceding the year when the decision to carry out a tax audit has been taken. All tax returns for such tax periods remain subject to inspection. Notwithstanding the fact that a year has been reviewed by tax authorities, any tax return applicable to that year may be subject to further review when it is carried out in connection with the corporate reorganization (merger, spin-off, transformation etc.) or liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable, or by an upper level tax authority for the purpose of supervision of the activities of a lower level tax authority.

Generally, the statute of limitations for imposing tax liability is three years from the day when a tax offense is committed or when the relevant tax period ends. However, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year statutory term if a court determines that a taxpayer has obstructed or hindered a tax inspection. Amendments to the Tax Code that came into effect on January 1, 2007 provide for the extension of the three-year statute of limitations if the actions of a taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed”, “hindered” or “created insurmountable obstacles” for an inspection and, ultimately, seek penalties beyond the three-year term. Based on limited court practice relating to the statute of limitations available to date, the courts mainly have ruled in favor of taxpayers. It is, however, too early to generalize the court practice on this matter due to the fact that it is still quite limited. These facts create tax risks in Russia substantially greater than typically found in countries with more developed tax systems. While we are subject to a general tax risk in Russia, we have also recorded provisions in our Consolidated Financial Statements related to certain transactions we entered into in connection with the purchase of land from third parties. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Provisions*

*and Contingencies.*” There is a risk that the relevant tax authorities or courts could challenge and/or recharacterise those transactions as not having been in compliance with Russian tax laws applicable at the relevant times. Any such challenge or recharacterisation could result in a requirement to pay material additional taxes, as well as related penalties and interest. The amounts could be in excess of the amounts that have been provided for in our Consolidated Financial Statements. A tax challenge could have a material adverse effect on our liquidity and financial condition and the value of our equity securities.

In addition, following the replacement of the unified social tax with mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund on January 1, 2010, the Social Security Fund and the Pension Fund have been empowered to carry out audits concerning payments of mandatory contributions, which may also increase our tax administration burden.

See also additional disclosure on our taxation contingencies in *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Provisions and Contingencies.”*

***We may be deemed to receive unjustified tax benefits.***

Taxpayers in Russia often have to resort to court proceedings to defend their position against the tax authorities. Court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory.

In its decision of July 25, 2001, the Russian Constitutional Court introduced the concept of “a taxpayer acting in bad faith” without clearly stipulating the criteria for its application. Although this concept is also not defined in Russian tax law or other Russian laws, it has been used by the tax authorities to invalidate, for instance, a taxpayer’s reliance on the letter of the tax law. The tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavorable to taxpayers.

On October 12, 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued Ruling No. 53 introducing a new concept of “unjustified tax benefit”, which is defined mainly by reference to specific examples of such tax benefits (*e.g.*, tax benefits obtained as a result of a transaction having no reasonable business purpose, use of a legal form that does not agree with the economic substance of the transaction, or fraud) and which may lead to disallowance thereof for tax purposes. There is little guidance on the interpretation of this concept by the tax authorities or courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. Although the intention of Ruling No. 53 was to combat the abuse of the tax law, based on cases brought to court to date relating to Ruling No. 53, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitrazh Court. In particular, we are aware of cases when this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. So far in the majority of cases where this concept was applied the courts have ruled in favor of taxpayers, but it is not possible to determine whether the courts will follow these precedents in the future. Should we be deemed to have received unjustified tax benefits, we could be subject to additional tax payments, fines and other penalties, which may have a material adverse effect on our business, financial condition and the results of operations. See also *“Management’s Discussion and Analysis of Financial Condition and Results of Operations – Provisions and Contingencies.”*

***Thin capitalization rules in Russia could affect our ability to deduct interest on certain borrowings.***

Thin capitalization rules in Russia limit the amount of interest on debts payable to non-resident shareholders that can be deducted for taxation purposes by Russian companies. The thin capitalization rules that are currently in effect apply to loans issued to Russian companies by foreign direct or indirect shareholders or loans issued by Russian companies that are affiliated with foreign shareholders. The rules also apply to loans secured by foreign shareholders and loans secured by Russian companies affiliated with foreign shareholders. For such loans, Russian taxation legislation contains provisions limiting the deductibility of interest expenses. An amount of actually accrued interest exceeding the limit is to be characterized as dividends and is subject to Russian withholding tax at rates applied to dividends.

According to Russian tax legislation provisions of international or intergovernmental treaties prevail over those of Russian domestic legislation in case of any contradictions.

According to most double taxation treaties concluded by the Russian Federation interest payable to a resident of another state is taxable only in that state. Most double taxation treaties state that if due to specific relations between a paying entity and a

person having actual rights to interest or between both of them and a third party the amount of interest accrued under a loan obligation exceeds that accrued under a loan between a paying entity and a person having rights on interest without the above specific relations, the relevant provisions of the double taxation treaty shall apply only to the latter mentioned amount of interest. The exceeding amount of interest shall be taxed in accordance with legislation of the appropriate state and considering other provisions of the treaty.

Some double taxation treaties also contain clauses stating that re-qualification of interest payable to a resident of another state into dividends is prohibited. Also some double taxation treaties state directly, that the interest should be deducted in full according to the provisions of the applicable double taxation treaties. Nevertheless, most double taxation treaties concluded by the Russian Federation contain no direct provisions which would protect companies from the capitalization rules in force in the Russian Federation.

Russian tax authorities in recent clarifications stated that contracting states may apply the thin capitalization rules as prescribed by domestic legislation with respect to related or affiliated companies and, consequently, interest exceeding the limit calculated under a controlled loan shall not decrease the taxable base of the paying entity. The court practice in this relation is generally favorable for Russian taxpayers.

In 2009 and 2010, one of our subsidiaries deducted interest expense related to loans provided by the Company based on our interpretation of the Tax Code. Should the tax authorities successfully challenge our tax position as not being in full conformity with applicable tax legislation, additional tax charges of RUB 1,547 million may be levied. We have not provided any amounts in respect of such obligations in our Consolidated Financial Statements as we believe that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

The practical application of double taxation and thin capitalization rules remains inconsistent, and it is difficult to predict how these rules will be applied in practice by the Russian tax authorities. Although the court practice generally favors Russian taxpayers, the risk of inconsistent application still exists. A realization of the above risk may have a material adverse effect on our business, financial condition and results of operations.

***The lack of any provisions in Russian tax law allowing us to consolidate our subsidiaries for tax purposes may lead to an additional tax burden.***

Financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit, respectively, of another of our entities. Because Russian legislation contains no consolidation provisions, dividends within the entities comprising our group may be subject to Russian taxes at each level. Generally, dividends payable to a Russian entity are taxed at 9% and the payor is required to withhold the tax when paying the dividend. However, according to the amendments introduced in the Tax Code, from January 1, 2008, dividends received by a Russian legal entity will not be taxable (taxable at the zero rate) provided that all the following conditions are met: (i) the uninterrupted holding period for the subsidiary's shares is not less than 365 calendar days, (ii) the recipient's share in the subsidiary's capital comprises at least 50% and (iii) the subsidiary is not permanently located in a jurisdiction included in the Ministry of Finance "black list" of tax haven jurisdictions (this point is applicable only to foreign subsidiaries). Dividends from foreign companies to Russian companies are subject to tax at 9% against which it may be possible to credit taxes withheld from dividends in countries with whom Russia has an applicable double tax treaty if the relevant treaty provides for the possibility of such credit. If dividends are paid by a Russian company to another Russian company, the tax base would be determined as the difference between dividends to be paid and dividends received (with the exception of dividends taxed at the zero rate).

The Russian Government, in its "Major Trends in Russian Tax Policy for 2009-2011", has proposed the introduction of consolidated tax reporting to enable the consolidation of the financial results of Russian taxpayers which are part of one group for corporate income tax purposes. Moreover, the draft law on consolidated group of taxpayers amending the Tax Code was introduced to the State Duma in June 2010 and passed in a first reading in October 2010. However, at this stage, it is impossible to predict whether or when such draft law will be enacted and whether we will meet the criteria for consolidated group of taxpayers established by the draft law.

***Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may adversely affect our business, financial condition and results of operations.***

There are transfer pricing rules in Russia that apply to transactions among entities within our group. These rules allow the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all “controlled” transactions (except for those conducted at state regulated prices and tariffs), provided that the transaction price differs from the market price by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (*i.e.*, if the price of such transactions differs from the prices of similar transactions by more than 20% within a short period of time).

The Russian transfer pricing rules as currently in effect are vaguely drafted, generally leaving a wide scope for their interpretation by the taxpayers, tax authorities and courts.

The federal law of July 18, 2011 No. 227-FZ “On amending certain legal acts of the Russian Federation in connection with improving the principles of determining prices for tax purposes”, which comes into effect on January 1, 2012, will result in more stringent transfer pricing rules with severe sanctions for violation thereof. The newly adopted rules will be applicable to income and expenses recognized by the taxpayers after the law comes into force. The law generally defines related parties as persons whose special mutual relations could influence the conditions and the results of the transactions conducted by these parties, or (and) the economic results of their activities or activities of the persons represented by them. The law establishes the list of “controlled” transactions between related and unrelated parties for the purposes of transfer pricing control. The tax authorities will have a right to accrue additional tax liabilities if the prices under the “controlled” transactions differ from those which would have been agreed by independent counterparties under similar circumstances. On the other hand, new transfer pricing rules provide for an offsetting adjustment to the related counterparty in the transaction. However, an offsetting adjustment could be made only in the event that the counterparty has made a transfer pricing adjustment in accordance with the decision of the tax authorities. At the same time, most of our transactions with independent customers in Russia are likely to fall outside the Russian transfer pricing rules. At this point, however, it cannot be clearly established how the law will operate when it comes into force and how it will be applied by the courts. It is also not possible to determine the effect the new law will have on taxpayers, including us.

We seek to ensure that our pricing complies with the effective transfer pricing rules. Nevertheless, due to the uncertainties in the interpretation of transfer pricing legislation, and the difficulties in determining domestic market prices for new housing and construction services, the tax authorities may challenge our transfer prices and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, our business, financial condition and results of operations could be adversely affected.

All of the factors described above and in the preceding risk factors relating to taxation matters create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems, imposing additional burdens and costs on our operations, including management resources and complicating our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance with tax legislation. See also “— *Selective or arbitrary government action may have a material adverse effect on our business, financial condition and results of operations.*” The occurrence of any of the events set out above could have a material adverse effect on our business, financial condition and results of operations.

**Risks Relating to Our Securities and the Trading Market**

***There may not be an active or liquid market for the Ordinary Shares, and their price may be highly volatile.***

Although the Ordinary Shares are listed on MICEX and RTS, and the GDRs are admitted to trading on the LSE, an active public market for them may not develop or be sustained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Ordinary Shares of GDRs does not develop or cannot be sustained, the price of the Ordinary Shares of GDRs may become more volatile and it may be more difficult to complete a buy or sell order for them.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. The trading in our Ordinary Shares in the form of GDRs is restricted by the legal rule mandating that no more than 35% of any class of a Russian company’s shares may be circulated abroad through depositary receipt programs (in 2010, the threshold was reduced to 25%, but this reduction had no retroactive effect and the permissions granted to us for circulation in

the form of GDRs of up to 35% of the outstanding Ordinary Shares are still valid). Therefore, investors may not be able to convert the Ordinary Shares into GDRs, which may have an adverse effect on the development of a liquid trading market for the Ordinary Shares, and there may only be a very limited public free float in the future.

Furthermore, if trading volumes of the Ordinary Shares or GDRs are low or a small amount of the Ordinary Shares or GDRs is publicly held by unrelated parties, it may result in a delisting of the Ordinary Shares or GDRs and the imposition of other liabilities, which would have a material adverse effect on the liquidity of the Ordinary Shares or GDRs.

The Russian stock markets have experienced extreme price and volume fluctuations, especially since the beginning of the recent economic downturn. Consequently, the trading prices of the Ordinary Shares may be subject to wide fluctuations in response to a number of factors, including unexpected variations in our operating results and those of other Russian companies; variations in national and industry growth rates; changes in governmental legislation or regulation; general economic conditions within our business sector or in Russia; or extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

***Because the GDR depositary (the “Depositary”) may be considered the owner of the Ordinary Shares underlying the GDRs, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary. In this regard, our shares have previously been the subject of a freezing order and the trading of our GDRs has been temporarily suspended.***

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, Ordinary Shares held by a depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the Ordinary Shares.

Russian law may not, however, recognise a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of Ordinary Shares underlying GDRs and, accordingly, may not recognise GDR holders’ beneficial ownership in such Ordinary Shares.

Thus, in proceedings brought against a depositary, whether or not related to the Ordinary Shares underlying the GDRs, Russian courts may treat those Ordinary Shares as the assets of the depositary, open to seizure or other actions which may be taken against the depositary or its assets.

For example, in the past, a lawsuit was filed against a depositary other than the Depositary seeking the seizure of various Russian companies’ shares represented by global depositary receipts issued by that other depositary and in May 2007, the Federal Customs Service of Russia filed a new lawsuit against that other depositary, based on allegations of fact common to the prior lawsuit.

A further example of how a depositary may be affected by Russian legal proceedings in respect of Ordinary Shares, which involved the Depositary, arose in 2010. As of June 30, 2010, Maritrade Investments Ltd., a company controlled by Mr. Zhukov (one of our Founding Shareholders), had pledged 12.5% of our Ordinary Shares as security for our obligation to repay the debt under our credit agreement with Nomos-Bank. Due to our failure to repay the debt owed to Nomos-Bank, the bank brought a court claim against Maritrade Investments Ltd. seeking to foreclose on the pledged Ordinary Shares. In June 2010, the Moscow Arbitrazh Court ruled in favor of Nomos-Bank. In August 2010, the Ninth Arbitrazh Court of Appeal reversed the decision of the lower court and declared that the pledge agreement had no legal force. Relying on the ruling of the Ninth Arbitrazh Court, Maritrade Investments Ltd. disposed of the Ordinary Shares that it owned. Part of these Ordinary Shares, comprising 8.6% of our Ordinary Shares, were held by the Depositary and remained beneficially owned by Mr. Zhukov in the form of GDRs. See also the section of the Information Memorandum entitled “*Risk Factors—Risks Relating to Our Business—We will remain under the control of the Nafta Moskva Group*”

Nomos-Bank further appealed to the Federal Arbitrazh Court of the Moscow region, which, in October 2010, ruled in favor of Nomos-Bank and upheld the decision of the Moscow Arbitrazh Court to foreclose on these Ordinary Shares. In December 2010, we repaid part of the debt in the amount of approximately USD 60 million by selling our interest in the Park-City development project to Nomos-Bank. In January 2011, Maritrade Investments Ltd. filed an application for a new trial with the Moscow Arbitrazh Court seeking to re-open the case on the ground of newly discovered evidence. On January 27, 2011, the Court granted the application for a new trial and issued an order freezing approximately 42.4 million (representing 8.6%) of our Ordinary Shares held by the Depositary. As a precautionary measure, the Depositary closed our GDR facility to deposits and withdrawals of our Ordinary Shares pending resolution of this issue, causing the FSA to temporarily suspend trading of our

GDRs on the LSE. In February 2011, we repaid the remaining part of the debt with funds borrowed from Bank Otkritie, thus completing the repayment of our debt owed to Nomos-Bank. In March 2011, the Moscow Arbitrazh Court officially repealed the foreclosure against the 8.6% of our Ordinary Shares held by the Depositary and lifted the freezing order. In light of that decision, on March 14, 2011, the Depositary opened our GDR facility to deposits and withdrawals and, on March 15, 2011, the suspension of trading of our GDRs on the LSE was formally lifted. During the period of suspension, holders of our GDRs were unable to trade their GDRs in the market, but were not prevented from trading over-the-counter.

Trading in our Ordinary Shares or GDRs may be suspended in the future which would result in a significantly reduced liquidity or no liquidity in our Ordinary Shares or GDRs.

In the event that a lawsuit seeking the seizure or arrest of the Ordinary Shares underlying our GDRs were to be successfully initiated in the future against the Depositary, and the Ordinary Shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Ordinary Shares and all of the money invested in them.

***Holders of the Ordinary Shares (or GDRs) may not be able to exercise statutory pre-emptive rights.***

Generally, existing holders of shares (or GDRs) of Russian open joint stock companies are in certain circumstances entitled to statutory pre-emptive rights with respect to newly issued shares, pursuant to Russian law and the Company's charter, as described under "*Description of Share Capital and Certain Requirements of Russian Legislation—Pre-emptive Rights*". Holders of the Ordinary Shares in certain jurisdictions may face restrictions under relevant local law on their ability to exercise statutory pre-emptive rights with respect to any new equity issuances by the Company. In particular, holders of the Ordinary Shares located in an EEA Member State may not be able to exercise their statutory pre-emptive rights, unless a prospectus pursuant to the Prospective Directive is effective with respect to those rights, or an exemption under the Prospective Directive from the requirement to produce such a prospectus is available. The Company does not expect to produce a prospectus to allow a non-exempt public offering and therefore holders located in the EEA may not be able to exercise any statutory pre-emption rights for any of its ongoing or further share issuances and rights offerings or take steps to receive an exemption from the requirement to produce such a prospectus. Furthermore, US holders of the Ordinary Shares may not be able to exercise such statutory pre-emptive rights, unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement under the Securities Act is available. The Company does not currently expect to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such US holders to exercise such statutory pre-emptive rights and, if such exemption were available, the Company may not take the steps necessary to enable US holders of the Ordinary Shares to rely on it.

In addition, the statutory pre-emptive rights may not be available to GDR holders. Russian law generally treats the Depositary as the owner of the Ordinary Shares underlying our GDRs and, accordingly, may not recognise GDR holders' beneficial ownership in such shares. See "*—Because the GDR depositary may be considered the owner of the Ordinary Shares underlying the GDRs, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary. In this regard, our shares have previously been the subject of a freezing order and the trading of our GDRs has been temporarily suspended.*" Accordingly, only the Depositary (and not GDR holders) is entitled to statutory pre-emptive rights with respect to the Ordinary Shares underlying our GDRs. The Depositary is generally under no obligation to exercise these statutory pre-emptive rights on behalf of GDR holders and, as a result, such rights may not be available to GDR holders. For example, GDR holders were not entitled to exercise statutory pre-emptive rights in respect of the issuance of up to 123,315,000 new Ordinary Shares that we intend to place through an open subscription in October 2011.

***We may decide not to pay dividends in the future (and holders of the GDRs may be subject, in any event, to limitations or delays in repatriating their earnings from distributions made on the GDRs).***

We may be unable or elect not to declare dividends in the future. The payment of dividends, if any, by us will depend on, among other things, our future profits, financial position and capital requirements, the sufficiency of our distributable reserves, credit terms, general economic conditions and other factors that the directors and/or shareholders deem to be important from time to time. For example, the General Shareholders' Meeting may decide against issuing dividends if it determines that the debt and equity capital raised by us appears to be insufficient for our investment needs. Should we decide against declaring dividends in the future, the price of the Ordinary Shares or GDRs may be adversely affected.

***You may be unable to repatriate distributions made on the Ordinary Shares or GDRs.***

We intend to pay dividends, if any, on the Ordinary Shares in Roubles. The ability to convert Roubles into other currencies (such as U.S. dollars) is subject to the availability of those other currencies in Russia's currency markets. Although there is an existing market in Russia for the conversion of Roubles into other currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no active market for the conversion of Roubles into other currencies outside of Russia and certain CIS countries and only a limited market in which to hedge Rouble and Rouble-denominated investments. Further, there can be no assurance that future changes to the Russian exchange control regime will not restrict an investor's ability to repatriate its earnings on the Ordinary Shares.

In relation to GDR holders, we anticipate that any dividends that we may pay in the future in respect of the Ordinary Shares held by the Depositary or its nominee on behalf of GDR holders will be declared and paid to the Depositary in Roubles and will be converted into U.S. Dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Rouble and the U.S. dollar. Such fluctuations could have an adverse effect on the price of the GDRs.

In addition, dividends that the Company may distribute to the Depositary will be subject to applicable Russian withholding taxes. See "*— GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid via the Depositary.*"

***Future sales of our equity securities may affect the market price of the Ordinary Shares or GDRs.***

Sales, or the possibility of sales, of substantial numbers of our equity securities in the public markets, including the Russian stock market, could have an adverse effect on the market trading prices of the Ordinary Shares or GDRs. Any equity offerings may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Ordinary Shares or GDRs.

***Non-resident investors may be subject to Russian tax withheld at source on trades of the Ordinary Shares or GDRs through or to certain Russian payors.***

Under Russian tax law, gains received by non-resident legal entities that are holders of equity securities of Russian issuers, such as the Ordinary Shares, as well as financial instruments derived from such securities, such as the GDRs, arising from a sale, exchange or other disposition of such equity securities or financial instruments may be subject to Russian income tax to be withheld at the source by a Russian payor of the income, if immovable property located in Russia constitutes more than 50% of assets of a Russian company that is the issuer of such equity securities that are sold, exchanged or otherwise disposed of or that are certified by the derivative financial instruments that are sold, exchanged or otherwise disposed of.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies performing their activities in Russia via a permanent establishment. Gains arising from a sale of (i) the foregoing types of securities on foreign stock exchanges (where these securities are listed) or (ii) the shares recognized as quoted on a stock exchange in accordance with the Russian Tax Code by non-resident holders that are organizations are not treated as income from a Russian source, and hence are not subject to taxation in Russia.

Capital gains arising from the disposition of the foregoing types of securities and derivatives outside Russia by foreign holders of the Ordinary Shares who are individuals not resident in Russia for tax purposes will not be considered Russian source income and will not be taxable in Russia. Gains arising from disposition of the foregoing types of securities and derivatives in Russia by foreign holders of Shares who are individuals not resident in Russia for tax purposes may be subject to personal income tax.

A number of the existing double tax treaties concluded by the Russian Federation provide for the exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped in the case of non-Russian resident individuals, and obtaining subsequent tax refunds may be time-consuming and can involve considerable practical difficulties.



***It may not be possible to deposit the Ordinary Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares.***

Whenever the Depositary believes that the Ordinary Shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by us and our affiliates for our or their proprietary accounts or as to which we or they exercise voting and investment power) represent (or, upon accepting any additional Ordinary Shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional Ordinary Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, subject to prior consultation with us to the extent reasonably practicable, causing proportional cancellation of GDRs and withdrawal of underlying Ordinary Shares from the depositary receipt program to the extent necessary or desirable to so comply.

Prior to July 25, 2008, the FSFM regulations limited the amount of shares in Russian companies that could be represented by GDRs to 35% of the company's issued and outstanding shares. After July 25, 2008, that limit was reduced to a maximum of 30% and after January 1, 2010 further reduced to a maximum of 25%. However, at the time of our initial public offering in 2007, we received approval from the FSFM for 107,940,000 of our Ordinary Shares to be in the form of GDRs and in 2008 we received another approval from the FSFM for additional 64,701,131 of our Ordinary Shares to be circulated outside Russia, including in the form of GDRs, which together amounted to 34.99% of our then outstanding Ordinary Shares. The reduction in the percentage limit for shares represented by GDRs had no retroactive effect and the permissions granted to us for circulation in the form of GDRs of up to 34.99% of the outstanding Ordinary Shares are still valid. This means that, as of June 30, 2011, only 172,641,131 Ordinary Shares can be deposited into our GDR program. There can be no assurance that we will be able to obtain approval for a deposit of a greater number of Ordinary Shares in the GDR program than we currently have approval for, and any remaining capacity may be used by our other existing shareholders. As a result, investors in our Ordinary Shares may not be able to deposit their Ordinary Shares in the GDR program in order to receive GDRs.

In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open joint stock company's shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a mandatory tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's shares and voting preferred shares (regardless of the size of their actual holdings). See *"Description of Share Capital and Certain Requirements of Russian Legislation—Change of Control and Anti-takeover Protection."* Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules. In addition, in a letter to the Depositary in July 2006, the Russian securities regulatory authority took the general position that the mandatory public tender offer rules do apply to a depositary bank. However, we believe that the mandatory tender offer rules should not be applicable to the Depositary, since it has appointed two separate custodians under the Deposit Agreements, one of which is not affiliated with the Depositary, to hold on deposit the Ordinary Shares underlying the GDRs.

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of the assets under Russian accounting standards that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See *"Description of Share Capital and Certain Requirements of Russian Legislation — Antimonopoly Regulation."* The Depositary has received general interpretive guidance from the FAS that it does not need the approval referred to in the preceding sentence in connection with depositary receipt programs such as our GDR program. If, however, the FAS were to rescind or disregard its abovementioned interpretation, our GDR program would be subject to a de facto limit of 25% of our Ordinary Shares, unless the Depositary could obtain FAS approval for a higher percentage.

As a result, it may not be possible to deposit the Ordinary Shares into our GDR program in order to receive GDRs, and, under certain circumstances, investors may be required to withdraw Ordinary Shares from the GDR program, which may in either case affect the liquidity and the value of the investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and or size of our depositary receipt programs, which could adversely affect the value of the Ordinary Shares or the GDRs.

***The Ordinary Shares may be de-listed from MICEX or RTS, the FSFM permission for the GDR program may be revoked, and the GDR facilities may have to be terminated.***

Maintenance of our “A – level 1” listing on MICEX and our “B” listing on RTS will require us to meet relevant listing requirements, including, among others, to comply with securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements as well as minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for the de-listing of our company. In addition, our FSFM permission for the GDR program may be revoked in such case, and the GDR facilities may have to be terminated because a Russian stock exchange listing is a condition to the effectiveness of the FSFM permission for the GDR program.

While we are not aware of any Russian issuer that has had its GDR permit revoked on such grounds, the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of our Shares and the GDRs.

***Voting rights with respect to the Ordinary Shares represented by our GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law.***

Our GDR holders have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Ordinary Shares represented by GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Federal Law No. 208-FZ “On Joint Stock Companies”, as amended (the “**Joint Stock Companies Law**”) requires us to notify shareholders not less than 20 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors and to pass upon certain other matters. Our shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders by comparison, do not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no US, UK or Russian legal prohibitions (including, without limitation, the Listing Rules and Prospectus Rules of the FSA and the admission and disclosure standards of the LSE or the rules of any Russian stock exchange on which Shares are listed) to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Ordinary Shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Ordinary Shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the Ordinary Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Ordinary Shares underlying the GDRs. We cannot assure you that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders’ rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the Ordinary Shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our Board of Directors or our review commission. If GDR holders wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the Ordinary Shares and thus become the owner of the Ordinary Shares on our share register.

***GDR holders may have limited recourse against the Company, its directors and its senior management because the Company generally conducts its operations outside the United Kingdom and the majority of its current directors and all its senior management reside outside the United Kingdom.***

Judgments rendered by a court in any jurisdiction outside Russia will generally be recognised by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil or commercial cases exists between Russia and the country where the judgment is rendered or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments.

As at the date of this Information Memorandum, there is no treaty between the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters, and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia. These limitations may deprive the GDR holders of effective legal recourse for claims related to their investment in the GDRs. The Company's presence outside the United Kingdom may limit the legal recourse of the GDR holders against the Company, its directors and senior management. The Company is incorporated under Russian laws. Most of its directors and all of its senior management reside outside the United Kingdom, principally in Russia. A substantial portion of the Company's assets and assets of its directors and senior management are located outside the United Kingdom, principally in Russia. As a result, GDR holders may not be able to effect service of process within the United Kingdom upon the Company, its directors and senior management, or to enforce United Kingdom court judgments obtained against the Company, its directors and senior management, in jurisdictions outside the United Kingdom. In addition, it may be difficult for GDR holders to enforce, in original actions brought in courts in jurisdictions outside the United Kingdom, liabilities obtained in accordance with UK securities laws.

***GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid via the Depositary.***

Under Russian law, dividends paid to a non-resident holder of Ordinary Shares generally will be subject to Russian withholding tax at a rate of 15% for both organizations and individuals. Russian tax rules applicable to the holders of the GDRs are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Ministry of Finance of the Russian Federation expressed its opinion that holders of GDRs should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the GDRs is duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

Unless we receive adequate clarification from the Russian competent authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends, we pay to the Depositary at a lower rate than the domestic rate applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the Ordinary Shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant double tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. Although under the relevant double tax treaty non-resident GDR holders may apply to the Russian tax authorities for a refund of the respective amount of tax so withheld by us, we cannot make any assurances that the Russian tax authorities will grant any refunds.

## DIVIDEND POLICY

We did not declare or pay dividends in respect of the years ended December 31, 2008, 2009, 2010 and six months ended June 30, 2011.

We currently intend to pay dividends after the recovery of our business operations from the impact of the economic downturn. Until such time, we expect to reinvest substantially all of our operating cash flows into our business. At such time that we determine to pay dividends, the declaration and payment by us of any dividends and the amount thereof will depend on the results of our operations, our financial position, cash requirements, acquisition or investment opportunities, profits available for distribution and other factors deemed to be relevant at the time. Under our credit agreement with VTB, we are required to obtain VTB's prior consent to pay dividends. See "*Material Contracts – Major Credit Agreements – RUB 3,056 million VTB Term Credit Facility.*" In addition, our credit agreements with Morgan Stanley and Nomura include restrictive covenants that limit our ability to pay dividends.

As a Russian holding company, our ability to pay dividends depends upon receipt of dividends and distributions from our subsidiaries and our ability to make dividend payments under Russian law. See "*Description of Share Capital and Certain Requirements of Russian Legislation.*" The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and their ability to make dividend payments to us in accordance with relevant legislation and Russian company law.

According to Russian legislation, dividends are to be paid out of net profits determined based on Russian accounting standards. The Joint Stock Companies Law and our current dividend policy, adopted by our Board of Directors on May 29, 2006, provides that the size of the dividend and the relevant part of net profit from which the dividends are paid are determined in accordance with the recommendations of our Board of Directors. Such recommendations are prepared on the basis of the amount of net profits determined according to Russian accounting standards, adjusted in accordance with the expected results to be determined under IFRS, and our investment needs.

We currently expect that we will pay dividends in Roubles. To the extent that we declare and pay dividends, owners of our Ordinary Shares and GDRs on the relevant record dates will be entitled to receive dividends payable in respect of the Ordinary Shares or, as the case may be, the Ordinary Shares underlying the GDRs, subject to the terms of the deposit agreements related to the GDRs. See also "*Risks Factors – Risks Relating to Our Securities and the Trading Market – You may be unable to repatriate distributions made on the Ordinary Shares or GDRs.*"

## CAPITALIZATION

The following table sets forth our cash and cash equivalents, current loans and borrowings and total capitalization as of June 30, 2011 on a historical basis. The following table should be read together with “*Selected Consolidated Financial Information and Other Operating Data*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our Unaudited Consolidated Financial Statements and related notes.

	<b>As of June 30, 2011</b>
	<b>mln RUB</b>
<b>Cash and cash equivalents</b> .....	2,503
<b>Current loans and borrowings</b> .....	16,095
<b>Non-current loans and borrowings</b> .....	28,937
Equity:	
Share capital .....	30,843
Additional paid-in capital .....	20,082
Reserve resulting from additional share issue .....	(28,506)
Retained earnings .....	(21,578)
Total equity attributable to shareholders of the Company .....	841
Non-controlling interest .....	350
<b>Total equity</b> .....	<b>1,191</b>
<b>Total capitalization</b> <sup>(1)</sup> .....	<b>30,128</b>

Notes:

<sup>(1)</sup> Total capitalization is the sum of non-current loans and borrowings and total equity.

Subsequent to June 30, 2011, we have repaid our credit facility with Absolut Bank and entered into a RUB 1,200 million secured term credit facility agreement with the Bank of Khanty-Mansiysk. In addition, we received waivers of defaults under some of our credit facilities. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments*”.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER OPERATING DATA

The selected consolidated financial information set forth below has been extracted from the Audited Consolidated Financial Statements, as well as the Unaudited Consolidated Financial Statements included in this Information Memorandum attached to this Information Memorandum as Annexes A and B. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, in effect at the time of their respective preparation. The Unaudited Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Some of the selected operating data presented below (New sales contracts (PIK Share) and Total Completions) is extracted from our internal management accounts, which are not prepared in accordance with IFRS or Russian accounting standards and have not been audited by independent auditors.

### ***Restatements***

The Audited Consolidated Financial Statements in respect of the years ended December 31, 2008 and 2009 have been reissued to illustrate the effect of restatements of certain items in the Audited Consolidated Financial Statements as follows.

#### *Presentation of long-term loans and borrowings*

As of December 31, 2009, we were in breach of a debt to EBITDA ratio covenant in a credit agreement with Sberbank. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Major Credit Agreements*”. This credit agreement was classified as long-term loans and borrowings at December 31, 2009 since it matures after December 31, 2010, and there were certain arrangements with Sberbank in place not to demand early repayment of this loan on the grounds of this breach. IAS 1 *Presentation of Financial Statements* requires classifying a liability as current if a lender did not formally agree by the end of a reporting period to provide a period of grace ending at least twelve months after the reporting period, during which the lender cannot demand immediate repayment due to the breach. We have modified the presentation of these balances in the comparative information as of December 31, 2009. This modification has resulted in an increase of short-term loans and borrowings and in a corresponding decrease in long-term loans and borrowings by RUB 15,844 million as of December 31, 2009. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources*”.

#### *Revision of construction costs for certain completed projects*

During 2010, we completed certain legal procedures for the state registration of titles (*i.e.*, for the transfer of our title to our customers) for certain residential properties. The revenue from the sale of these properties was recognized in the consolidated financial statements for the years 2006-2008. On the completion of these procedures, we performed a reconciliation of the total actual costs incurred, including those related to social infrastructure, to the estimate of the costs recognized in the consolidated financial statements for 2006-2008. As a result, we identified that certain costs and the related tax effects have not been included in the estimated costs included in costs of sales for 2006-2008. We have corrected these errors by adjusting the relevant balances as of January 1, 2009 and December 31, 2009. In addition, we identified certain classification errors which have also been adjusted in the Consolidated Financial Statements and resulted in an adjustment of the balances of inventories and accounts payable as of December 31, 2009.

For more details related to the above restatements, refer Note 2(a) to the Audited Consolidated Financial Statements.

### ***Discontinued Operations***

In August 2009, we sold our non-ferrous mining division as a part of our plan to dispose of certain non-core assets to repay a portion of our debt. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Disposals*.” Financial results of our non-ferrous mining division were classified as discontinued operations in the Audited Consolidated Financial Statements. The consolidated statement of comprehensive income and consolidated statement of cash flows for 2008 have been re-presented in the Audited Consolidated Financial Statements to show the discontinued operations separately from continuing operations.

## Segment Reporting

Up to December 31, 2009, we analyzed our operations on the basis of three reportable segments: (1) real estate development; (2) construction and (3) maintenance.

Effective from January 1, 2010, we have revised the composition of our reportable segments, as shown in the Audited Consolidated Financial Statements for the year ended December 31, 2010, to reflect the changes in our internal organizational structure. Comparative segment information for the year ended December 31, 2009 has been restated accordingly. Our core activities are: (1) the development of real estate properties and sales of completed units, categorized as of January 1, 2010 under the real estate development segment in our Consolidated Financial Statements; (2) the construction of concrete panel housing, production and assembly of prefabricated panel residential buildings, including construction at our development sites and construction services provided to third parties, categorized as of January 1, 2010 under the construction segment in our Consolidated Financial Statements; (3) the production of reinforced concrete panels, window frames and other construction materials, categorized as of January 1, 2010 under the industrial segment in our Consolidated Financial Statements; and (4) the servicing and maintenance of real estate properties constructed by us and other developers, transportation and other activities, not included in the real estate development, construction and industrial segments, categorized as of January 1, 2010 under the segment of other operations in our Consolidated Financial Statements. Comparative segment information for 2008 and 2009 was re-presented in the Audited Consolidated Financial Statements in accordance with new accounting policy. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Operating Segments — Presentation of Operating Segments.”

	For the year ended December 31,			For the six months ended June 30,	
	2008 <i>(restated)*</i>	2009 <i>(restated)*</i>	2010	2010	2011
	mln RUB				
<b>Consolidated Statements of Comprehensive Income</b>					
<b>Revenue</b> .....	<b>33,695</b>	<b>41,175</b>	<b>38,090</b>	<b>15,126</b>	<b>22,794</b>
Cost of sales.....	(25,271)	(33,218)	(35,598)	(15,170)	(19,060)
<b>Gross profit</b> .....	<b>8,424</b>	<b>7,957</b>	<b>2,492</b>	<b>(44)</b>	<b>3,734</b>
Gain / (loss) on disposal of subsidiaries and development rights, net.....	-	(1,272)	368	-	-
Distribution expenses.....	(974)	(477)	(488)	(222)	(301)
Administrative expenses.....	(5,540)	(3,890)	(3,372)	(1,780)	(1,913)
Impairment losses and reversal of impairment loss .....	(24,028)	(4,671)	(1,106)	(613)	1,710
Other income and expenses, net.....	(300)	(391)	(373)	79	543
Finance income.....	481	771	325	211	2,403
Finance costs.....	(8,379)	(9,801)	(5,930)	(4,283)	(2,160)
Share of loss of equity accounted investees, net of income tax.....	(75)	(41)	(52)	(33)	-
<b>Loss before income tax</b> .....	<b>(30,391)</b>	<b>(11,815)</b>	<b>(8,136)</b>	<b>(6,685)</b>	<b>4,016</b>
Income tax benefit /(expense).....	1,343	(866)	2,051	1,514	(830)
<b>Loss from continuing operations</b> .....	<b>(29,048)</b>	<b>(12,681)</b>	<b>(6,085)</b>	<b>(5,171)</b>	<b>-</b>
Profit from discontinued operations, net of tax.....	85	1,193	-	-	-
<b>Loss and total comprehensive income for the period</b> .....	<b>(28,963)</b>	<b>(11,488)</b>	<b>(6,085)</b>	<b>(5,171)</b>	<b>3,186</b>
Attributable to:.....					
Owners of the Company.....	(28,743)	(11,115)	(6,128)	(5,131)	3,181
Non-controlling interest.....	(220)	(373)	43	(40)	5

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

	As of December 31,			As of June 30,	
	2008 <i>(restated)*</i>	2009 <i>(restated)*</i>	2010	2010	2011
	mln RUB				

### Consolidated Statements of Financial Position

Cash and cash equivalents .....	3,153	3,417	4,350	1,967	2,503
<b>Total assets</b> .....	<b>139,294</b>	<b>115,358</b>	<b>122,161</b>	<b>117,442</b>	<b>129,497</b>
Loans and borrowings, non-current .....	8,393	6,277	4,916	7,166	28,937
Loans and borrowings, current .....	31,742	32,013	39,062	35,030	16,095
<b>Total equity</b> .....	<b>15,867</b>	<b>4,343</b>	<b>(1,995)</b>	<b>267</b>	<b>1,191</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

	For the year ended December 31,			For the six months ended June 30,	
	2008 <i>(restated)*</i>	2009 <i>(restated)*</i>	2010	2010	2011
	<b>mln RUB</b>				
<b>Consolidated Statements of Cash Flows</b>					
Cash flows from/(utilized by) operating activities .....	8,171	1,188	(4,816)	(3,957)	(5,574)
Cash flows utilized by investing activities .....	(21,903)	(697)	1,434	159	1,365
Cash flows from financing activities .....	(127)	(227)	4,315	2,348	2,362

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

### Non-IFRS measures

The information presented below includes measures not defined by IFRS and is not derived from our Consolidated Financial Statements. In particular, EBITDA, EBITDA margin and Adjusted EBITDA are non-IFRS measures and were calculated by us based on data derived from our Consolidated Financial Statements. We have included these measures for the reasons described below; however, these measures should not be used instead of, or considered as alternatives to, our historical financial results based on IFRS.

EBITDA represents total comprehensive income/(loss) for the period before income tax expense, interest income, interest expense including penalties payable and depreciation and amortization. Adjusted EBITDA represents EBITDA before impairment losses and reversal of impairment, impairment losses on financial assets, foreign exchange losses, share of loss of equity accounted investees (net of tax), gain/loss on disposal of property, plant and equipment, gain/loss on disposal of subsidiaries and development rights, effect of termination of long-term land lease agreements, provision for doubtful accounts and accrued penalties and fines, including reversals. We define EBITDA margin as EBITDA divided by revenue.

EBITDA, Adjusted EBITDA and EBITDA margin are not measures of financial performance under IFRS. You should not consider them an alternative to net profit for the relevant period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Our management uses EBITDA, Adjusted EBITDA and EBITDA margin to assess our operating performance because it believes that EBITDA, Adjusted EBITDA and EBITDA margin are important supplemental measures of our operating performance. Due to the existence of different EBITDA calculation methodologies, we have included in this Information Memorandum both EBITDA and Adjusted EBITDA. In addition, our management believes that EBITDA, Adjusted EBITDA and EBITDA margin are frequently used by securities analysts, investors and other interested parties in the evaluation of companies that operate in our industry. EBITDA, Adjusted EBITDA and EBITDA margin have limitations as analytical tools, and should not be considered in isolation, or as substitutes for financial information as reported under IFRS.

	For the year ended December 31,			For the six months ended June 30,	
	2008 <i>(unaudited)</i> <i>(restated)*</i>	2009 <i>(unaudited)</i> <i>(restated)*</i>	2010 <i>(unaudited)</i>	2010 <i>(unaudited)</i>	2011 <i>(unaudited)</i>



mln RUB, except %

**Non-IFRS Measures**

EBITDA <sup>(1)</sup> .....	(26,962)	(3,150)	(2,463)	(3,230)	5,029
EBITDA margin .....	(80.0)%	(7.6)%	(6.5)%	(21.4)%	22.1%
Adjusted EBITDA <sup>(2)</sup> .....	2,942	4,530	(829)	(1,739)	1,830

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

<sup>(1)</sup> Reconciliation of EBITDA to total comprehensive income/(loss) is as follows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(unaudited) (restated)*	(unaudited) (restated)*	(unaudited)	(unaudited)	(unaudited)
	<b>mln RUB</b>				
Total comprehensive income/(loss) for the period .....	(28,963)	(11,488)	(6,085)	(5,171)	3,186
Depreciation and amortization .....	1,076	860	759	383	339
Interest expense, including penalties payable.....	2,749	7,012	5,239	3,283	2,101
Interest income.....	(481)	(400)	(325)	(211)	(1,427)
Income tax expense .....	(1,343)	866	(2,051)	(1,514)	830
<b>EBITDA .....</b>	<b>(26,962)</b>	<b>(3,150)</b>	<b>(2,463)</b>	<b>(3,230)</b>	<b>5,029</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

<sup>(2)</sup> Reconciliation of Adjusted EBITDA to EBITDA is as follows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(unaudited) (restated)*	(unaudited) (restated)*	(unaudited)	(unaudited)	(unaudited)
	<b>mln RUB</b>				
EBITDA.....	(26,962)	(3,150)	(2,463)	(3,230)	5,029
Impairment (reversals) /losses.....	24,028	4,671	1,106	613	(1,710)
Impairment loss on financial assets.....	2,547	481	-	528	(15)
Forex loss.....	2,941	642	96	472	(894)
Share of loss of equity accounted investees...	75	41	52	33	-
(Gain)/loss on disposal of PP&E.....	80	(16)	(6)	(6)	4
(Gain)/loss on disposal of subsidiaries and development rights .....	-	(43)	(368)	(331)	-
Effect of termination long-term land lease agreements .....	-	-	(2,032)	(857)	-
Provision for doubtful accounts .....	127	1,666	595	-	-
Accrued penalties and fines.....	106	238	2,191	1,039	(584)
<b>Adjusted EBITDA<sup>(1)</sup> .....</b>	<b>2,942</b>	<b>4,530</b>	<b>(829)</b>	<b>(1,739)</b>	<b>1,830</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

<sup>(1)</sup> Adjusted EBITDA does not add back the effect of revision of social infrastructure costs of RUB 548 million for the year ended December 31, 2008 and RUB 4,181 million for the year ended December 31, 2010. See “Management’s Discussions and Analysis of Financial Condition and Results of Operations – Effect of revision of social infrastructure costs”

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	<i>NSA, thousand sq. m.</i>				
New sales contracts (PIK Share) <sup>(1)</sup> .....	520	123	392	159	229
Total completions <sup>(2)</sup> .....	813	884	739	245	354

	<b>For the year ended December 31,</b>			<b>For the six months ended</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>June 30,</b>	<b>2011</b>
Housing completions.....	621	732	375	81	299
Construction services completions .....	192	152	364	164	55
Transferred to customers (PIK Share) <sup>(3)</sup> ...	378	492	434	152	260

- (1) Source: management accounts. This represents the net sellable area of housing for which sales contracts have been entered into with customers.
- (2) Source: management accounts. This represents the net sellable area of housing, including housing constructed for federal and local authorities and other developers, accepted by the State Commission.
- (3) Source: Consolidated Financial Statements. This represents the net sellable area of housing delivered to our customers for which the customer has signed an act of acceptance for the apartment.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements, including the notes thereto, and other information included elsewhere in this Information Memorandum. This section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."*

### Overview

We are one of the leading residential real estate developers in Russia, with a particular strategic focus on the Moscow Metropolitan Area. Our principal activity is the development, construction and sale of mass-market residential properties in the Russian real estate market. We believe we have a well-recognized brand in the Russian real estate market, particularly in the Moscow Metropolitan Area. During 2010 and the six months ended June 30, 2011, we completed construction of approximately 739 thousand square meters and 354 thousand square meters of residential housing, respectively, including housing constructed for federal and local authorities and other developers. We are one of the few integrated developers in Russia, which allows us to manage and control many of the important steps of the development and sales of our properties. For the year ended December 31, 2010 and the six months ended June 30, 2011, we had revenues of RUB 38,090 million and RUB 22,794 million and total comprehensive loss of RUB 6,085 million and total comprehensive income of RUB 3,186 million, respectively.

We believe that our integrated real estate development process gives us an important advantage in our industry as compared to our competitors. We own several plants that produce reinforced concrete panels, window frames and aluminum facades that are used in the construction of our projects, and, in the Moscow Metropolitan Area, we assemble and construct all concrete panel housing for our developments. We also provide servicing and maintenance for a substantial number of our developed properties. Beyond our own operational capabilities, we have established and continue to build strategic relationships with a wide range of financial institutions that provide mortgage financing to our clients, including state-controlled Sberbank, VTB 24 and Gazprombank and privately-owned Rosbank, Svyaz-Bank, Bank Vozrozhdenie, Uralsib, Housing Finance Bank, Investtradebank, Baltica Bank and Nordea Bank.

We focus our operations on developing large residential properties, some of which are large townships integrated with social infrastructure (e.g., kindergartens, schools and sport centers). As of June 30, 2011, our portfolio of real properties ("properties" or "development projects") encompassed 100 properties, including 8 properties held as investment (completed and partially sold residential properties), 44 properties in the course of development and 48 properties held for development. These properties have been internally approved for a total of 12.9 million square meters of net sellable area attributable to the Company (PIK Share). According to the Valuation Report, as of June 30, 2011, the combined Market Value of our properties was USD 2.7 billion. See "*Business — Development Projects — Ongoing Development Projects.*" As of June 30, 2011, our large and diversified land bank consisted of 1,513.39 hectares of land, which we believe helps us ensure sustainability of our growth and a leading market position in the future.

We own two of the three reinforced concrete panel manufacturers in Moscow, DSK-2 and DSK-3. We also own 100 KGI, which is a concrete panel manufacturer located in the Moscow region, as well as NSS and 480 KGI. NSS is a manufacturer of concrete, reinforced concrete elements and panels and other construction materials located in Obninsk, the Kaluga region, close to the border of the Moscow region. 480 KGI is a manufacturer of prefabricated panel housing located in Alexin, a town in the Tula region. Industrial and construction facilities that we own have the aggregate prefabricated production capacity of approximately 1,350 thousand square meters of housing per year.

Our operations have historically been concentrated in the Moscow Metropolitan Area. Since the beginning of 2007, we have developed and completed over 1 million square meters of housing in Moscow (including housing constructed for federal and local authorities and other developers) and over 1.5 million square meters of housing in the Moscow region. We have also undertaken a number of development projects in other regions of Russia, including Rostov-on-Don, Nizhniy Novgorod, Yaroslavl, Perm, Kaluga, Kaliningrad, Izhevsk, Novorossiysk, Omsk and St. Petersburg. As of June 30, 2011, 27 of our properties were located in Moscow, 25 in the Moscow region and 48 in other regions of Russia.

## Segment Reporting

Up to December 31, 2009, we analyzed our operations on the basis of three reportable segments: (1) real estate development; (2) construction and (3) maintenance.

Effective from January 1, 2010, we have revised the composition of our reportable segments to reflect the changes in our internal organizational structure. Our core activities are: (1) the development of real estate properties and sales of completed units, categorized as of January 1, 2010 under the real estate development segment in our Consolidated Financial Statements; (2) the construction of concrete panel housing, production and assembly of prefabricated panel residential buildings, including construction at our development sites and construction services provided to third parties, categorized as of January 1, 2010 under the construction segment in our Consolidated Financial Statements; (3) the production of reinforced concrete panels, window frames and other construction materials, categorized as of January 1, 2010 under the industrial segment in our Consolidated Financial Statements; and (4) the servicing and maintenance of real estate properties constructed by us and other developers, transportation and other activities, not included in the real estate development, construction and industrial segments, categorized as of January 1, 2010 under the segment of other operations in our Consolidated Financial Statements. Comparative segment information for 2008 and 2009 was re-presented in the Audited Consolidated Financial Statements in accordance with the new accounting policy. See “— *Operating Segments — Presentation of Operating Segments.*”

Our real estate development segment is our largest business unit. External revenues of the real estate development segment account for 69.4% and 76.0% of our consolidated revenue for the year ended December 31, 2010 and the six months ended June 30, 2011, respectively.

## Recent Developments

Subsequent to June 30, 2011, we have entered into the following material transactions:

In August 2011, we completed the sale of Ochakovskiy ZhBK, an entity holding development rights to a project located in the south of Moscow, to an unrelated third party for a total consideration of RUB 2,157 million in accordance with a purchase agreement entered into in July 2010. Ochakovskiy ZhBK is accounted for as an asset held for sale in our Unaudited Consolidated Financial Statements. We expect the gain on this transaction to be approximately RUB 1,000 million.

In September 2011, we received waivers of the existing defaults under our credit facilities with Morgan Stanley and Nomura and a letter from Rosbank indicating that it had no intent to demand immediate repayment of the Rosbank Credit Facility. See “— *Liquidity and Capital Resources – Capital Resources – Current status of our credit facilities.*”

In September 2011, we prepaid in full a RUB 1,519 million secured term credit facility with Absolut Bank.

We are considering the possibility of attracting third-party investors for development for commercial use of ground floors of residential buildings and stand-alone buildings in our development projects. For this purpose, we have registered five unit investment funds in August 2011 through which investors will be able to participate in such developments. We currently intend to launch one or more of these funds in the next 12 months.

On September 5, 2011, a bankruptcy claim was filed against the Company due to its failure to timely pay legal fees in the amount of RUB 0.2 million awarded by an arbitrazh court in connection with earlier court proceedings. We believe that the bankruptcy claim is without merit because the amount alleged to be payable by the Group has been paid in full to the claimant subsequent to the date of claim. As a result, the claimant has subsequently filed a motion with the court requesting a termination of the proceedings. Based on the motion, the Arbitrazh Court of Moscow terminated the bankruptcy proceedings against us on September 27, 2011.

The bankruptcy claim constituted, or could be viewed as, an event of default under some of the Group’s credit facilities. As a result, RUB 24,354 million of loans classified as non-current liabilities as of June 30, 2011 may be requested for accelerated repayment, and, accordingly, reclassified as current, payable on demand. In addition, RUB 7,039 million of loans classified as current may be reclassified to current, payable on demand. Management believes that it is unlikely that such accelerated repayments will be requested by the banks as a result of the above claim.

On September 12, 2011, we entered into a RUB 1,200 million secured term credit facility agreement with the Bank of Khanty-Mansiysk. The loan was provided to refinance a credit facility provided by Absolut Bank to our subsidiary Stroybusinesscenter.

As of September 12, 2011, the loan was fully drawn. The loan is repayable in twelve installments starting from October 12, 2013 and has a final maturity date of September 12, 2014. The interest rate on this loan is 11.8% *per annum* payable monthly. For a detailed description of the terms of the credit facility, see “*Material Contracts – Major Credit Agreements.*”

### Key Factors Affecting Our Results of Operations

We believe that the following factors significantly affected our results of operations for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 and will have a significant impact on our results of operations in the future.

#### *Macroeconomic Factors and Demand for Housing*

We derive all of our revenue from sales of goods and services in Russia. We sell real estate units in our developments primarily to retail customers, with current development focused on the Moscow Metropolitan Area, and provide our construction materials and construction services to other developers, regional and local governments, primarily located in the same region. Macroeconomic trends and factors specific to Russia, therefore, have a direct effect on our operations. In particular, economic growth and other economic trends in Russia have a strong impact on the levels of pre-sales and sales of apartments in our residential developments, which constitute a primary source of funding of our development projects.

The following table sets out key economic indicators for the Russian Federation as of and for the periods indicated.

	For the year ended December 31,			
	2007	2008	2009	2010
Real GDP growth/(decline), year-on-year (%) .....	8.1	5.2	(7.8)	4.0
Inflation, Dec/Dec (%) <sup>(1)</sup> .....	11.9	13.3	8.8	8.8
Unemployment rate (%) .....	6.1	6.4	8.4	7.2
Real disposable income growth, year-on-year (%).....	12.1	2.3	2.3	4.2 <sup>(2)</sup>

Sources: Rosstat

- (1) Inflation is measured as the percentage change in the CPI.  
(2) Estimated.

Compared to 2007, the macroeconomic indicators for the Russian Federation in 2008, 2009 and 2010 reflect the impact of the economic downturn, which had a particularly pronounced effect on the Russian real estate sector. Prior to the onset of the economic downturn in 2008, the Russian economy grew significantly, largely driven by high commodity prices, particularly for oil and gas. We believe that the strong economy, GDP growth and significant increases in real disposable income and household expenditures in 2007 and the first half of 2008 had a positive impact on our revenue in 2008 and even more so in 2009 as the delayed impact of the growing economy on the revenue of our real estate development segment took hold (see “— *Revenue and Cost Recognition*” below). For this reason, despite the onset of the economic downturn in the second half of 2008, we recorded a 17.9% increase in the total net sellable area of housing completed and accepted by the State Commission and a 30.2% increase in the total net sellable area transferred to customers in 2009 compared to 2008. As a result, the revenues in our real estate development segment increased by 34.0% in the same period. The strong economy in 2007 and the first half of 2008 also allowed us to execute our growth strategy through the acquisition of development rights for residential and commercial properties, increase our rate of construction compared to the prior corresponding periods and benefit from rising selling prices.

In contrast, the economic downturn starting in the second half of 2008 and through 2009 has had an adverse effect on various aspects of our results of operations and financial condition since 2009, largely affecting our earnings for the year ended December 31, 2010, and, in particular, putting pressure on our ability to meet our debt obligations as they fell due. See “— *Key Factors Affecting Our Results of Operations – Levels of Debt and Finance Costs.*” An overall reduction in disposable income of the general population in the second half of 2008 and in 2009, together with an increase in the unemployment rate, led to lower demand for real estate properties, including ours. In addition to a decrease in real disposable income, the economic downturn affected the availability of mortgage financing for prospective purchasers of real estate, which also affected the demand for real estate (although the Russian real estate market is substantially less dependent on mortgage financing than is the case in most Western countries). As a result, the average selling price of our real estate properties as well as the total net sellable area pre-sold through new sales contracts decreased significantly in the second half of 2008 and further declined in

2009. To increase the pre-sale of real estate units at an early stage of construction as well as to off-set the amounts due to our suppliers of goods and services, we also engaged in Block Sales of apartments in 2009 and the beginning of 2010, which were sold at significant discounts.

Reduced cash flow from sales (including pre-sales) of our real estate properties due to the economic downturn led to a liquidity deficit and a significant slowdown of our development activities towards the end of 2008 and in 2009, resulting in longer construction cycles and a significant increase in the amount of construction in progress. As a result, we recorded a 48.8% decrease in total net sellable area of housing completions and a 13.4% decrease in the total net sellable area of housing transferred to customers in 2010 compared to 2009. This resulted in a 14.2% decrease in the revenue of our real estate development segment in 2010 compared to 2009.

In the second half of 2009, the Russian economy, aided by higher oil prices and stronger global commodity demand, began to recover. This led to a gradual recovery of the real estate market in Russia, with the Moscow Metropolitan Area market demonstrating the highest rate of growth. Compared with the preceding corresponding periods, in 2010 and the first half of 2011, the total net sellable area pre-sold through new sales contracts increased by approximately 218.7% and 44.0%, respectively. Sales (including pre-sales) of our housing provided us with sufficient liquidity to commence construction at new development sites and complete some of our construction in progress.

Based on our pre-sale activity, however, we believe that market prices for residential real estate in Russia are yet to recover to pre-downturn level. In addition, due to the lag between pre-sales and the recognition of revenue in our real estate development sector, we expect that the reduced level of new residential real estate development activity and increased number of apartments that have been pre-sold at lower prices per square meter (including the Block Sales) in the second half of 2008 and through 2009, will continue to adversely affect our results of operations in future periods.

The following table sets out the volume of completed housing, net sellable area of completed housing developed by us and transferred to our customers and net sellable area sold (or pre-sold) through new sales contracts in the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2010 and 2011.

	For the year ended December 31,			For the six months ended	
	2008	2009	2010	June 30,	2011
	<i>NSA, thousand sq. m.</i>				
New sales contracts (PIK Share) <sup>(1)</sup> .....	520	123	392	159	229
Total completions <sup>(2)</sup> .....	813	884	739	245	354
Housing completions .....	621	732	375	81	299
Construction services completions .....	192	152	364	164	55
Transferred to customers (PIK Share) <sup>(3)</sup> ...	378	492	434	152	260

- (1) Source: management accounts. This represents the net sellable area of housing for which sales contracts have been entered into with customers.  
(2) Source: management accounts. This represents the net sellable area of housing, including housing constructed for federal and local authorities and other developers, accepted by the State Commission.  
(3) Source: Consolidated Financial Statements. This represents the net sellable area of housing delivered to our customers for which the customer has signed an act of acceptance for the apartment.

### ***Level of Debt and Finance Costs***

By the end of the first half of 2008, we had incurred large amounts of debt to help finance our regional expansion and benefit from then anticipated growth of Russian real estate markets outside the Moscow Metropolitan Area. As of June 30, 2008, the aggregate amount of our loans and borrowings, which was RUB 37,211 million, did not exceed our equity as of the same date. As of December 31, 2009 and 2010, due to a significant decline in our equity, as described below, the aggregate amount of our loans and borrowings, which was RUB 38,290 million and RUB 43,978 million, respectively, exceeded our equity by more than eight times.

As a result of the economic downturn, we experienced significant decline in sales of housing developed by us. See “— *Certain Factors Affecting Our Results of Operations — Macroeconomic Factors and Demand for Housing*”. The depressed Russian real estate market negatively affected the carrying value of our development rights, which resulted in material impairment losses. See “— *Certain Factors Affecting Our Results of Operations — Impairment Losses*”. These and certain other factors related to the economic downturn had a pronounced negative effect on our profitability. We recorded net losses of RUB 28,963

million, RUB 11,488 million and RUB 6,085 million for the years ended December 31, 2008, 2009 and 2010, respectively, with corresponding decreases in our equity to RUB 15,867 million, RUB 4,343 million and negative RUB 1,995 million as of December 31, 2008, 2009 and 2010, respectively. Primarily due to a decline in revenue, our EBITDA for 2008, 2009 and 2010, based on the Audited Consolidated Financial Statements, was negative. Furthermore, our debt to equity ratio exceeded 8.5 as of December 31, 2009. This deterioration of our financial condition led to breaches of financial covenants under several credit agreements, including credit agreements with Sberbank and Absolut Bank, when our compliance in 2009 and 2010 was tested based on the Audited Consolidated Financial Statements, and these banks were entitled to accelerate repayment of debt that we owed to them. See “— *Liquidity and Capital Resources — Capital Resources — Debt restructuring completed in February 2011*”.

In 2009, finance costs increased by 17.0% compared to 2008 because we were subject to contractual penalties in 2009 for our failure to repay a portion of our debt when it became due.

Our cash flow situation also suffered principally due to a steep decline in the proceeds from sales, including pre-sales, of real estate units in our buildings. This resulted in a shortfall of funds required to complete construction of these buildings according to our original plans and also to make payments on our indebtedness as they fell due. The availability of financing for Russian companies was limited and expensive in the second half of 2008 and in 2009 and our leverage and liquidity situation at the time made refinancing or incurring additional debt unfeasible. Our indebtedness, therefore, needed to be restructured.

We successfully completed the restructuring of our indebtedness in February 2011. See “— *Liquidity and Capital Resources — Capital Resources — Debt restructuring completed in February 2011*”. A key element to the restructuring was the receipt of support from the Russian Government, as well as our sale of certain non-core assets. The guarantees of the Russian Federation were granted in favor of Sberbank as support for the obligations of the Company and our subsidiary PIK-Region under the credit agreements with Sberbank. As a result of the debt restructuring, we were able to improve the structure of our borrowings principally by lengthening the overall maturity profile of our debt and reducing our overall debt without sacrificing operational flexibility. We have not accrued any late payment penalties since the beginning of 2011. See also “— *Liquidity and Capital Resources — Capital Resources — Debt restructuring completed in February 2011*” and “— *Current status of our credit facilities*” for a discussion of the debt restructuring process and the current status of our outstanding credit facilities.

### ***Revenue and Cost Recognition***

Revenue recognition policies in our real estate development and construction segments have a significant impact on our results of operations reflected in our Consolidated Financial Statements. Summarized below are the key elements of our revenue recognition policies for our real estate development and construction segments.

#### *Revenue from real estate development*

Revenue from sales of real estate properties mainly comprises revenue from the sale of standardized apartments, which are constructed without reference to a specific customer’s request. Revenue from such sales is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts.

Revenue from sales of real estate properties is accounted for as a sale of goods and recognized in the income statement 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. Generally, these conditions are considered to be satisfied when the sale contract is signed with a purchaser of an apartment, such purchaser (if a retail customer) makes a purchase price payment and relevant building is accepted by the State Commission. Sales are recognized at prices agreed at the date of entering into a sales contract.

We pre-sell approximately 80-85% of real estate units in our developments before construction is completed and buildings are accepted by the State Commission (except for elite residential buildings made of poured concrete, where the sales phase usually continues for up to several months after construction has been completed). This creates a lag between the date of receipt of cash from our customers and the date of recognition of the related revenues. The timing difference between a cash collection and revenue recognition depends largely on how early we are able to start pre-sales of real estate units in a building before it is accepted by the State Commission, and the ultimate date of acceptance by the State Commission. See “— *Liquidity and Capital Resources — Capital Resources — Advances from Customers*” for a discussion of the timing difference between cash collections and revenue recognition. As is customary in the Russian construction industry, buildings are for the most part

prepared for acceptance by the State Commission towards the end of the year (see “— *Key Factors Affecting Our Results of Operations — Seasonality*”). As a result, a disproportionately high proportion of annual revenues are recognized in the third and fourth quarters of the year. Even during the rest of the year, revenues tend to be distributed unevenly and depend on the timing of acceptance by the State Commission. Revenues of our real estate development segment can vary significantly from period to period due to the long development cycles of our projects and significant fluctuations in real estate prices.

#### *Revenue from construction services*

Revenue from our construction services segment is recognized in the statement of income in accordance with the actual volume of works completed in the relevant period. The state of completion is assessed monthly and fixed in acts of completed works signed by the customer and us. We provide for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects in which a Group entity participates as an investor or a co-investor while a third party acts as a developer. At the same time, other Group entities may provide construction services to the developer. Revenues from construction services relating to these projects are treated as an inter-company transaction and eliminated on consolidation against the related costs.

#### *Recognition of costs*

All costs related to obtaining development rights, construction permits and costs of construction of a building are allocated to individual apartments in such building pro rata to the share of square meterage of each apartment, and are recognized with respect to each apartment, when the sale contract is signed with a purchaser of the apartment, such purchaser (if a retail customer) makes a purchase price payment and the relevant building is accepted by the State Commission.

Costs related to the identification of new development sites and site assessment are recognized as an expense as incurred. Expenses related to the obtaining of development rights that include the cost of obtaining lease rights to a land plot underlying the development and the costs associated with the obtaining of construction permits are recognized in intangible assets if we have concluded that the projects are technically and commercially feasible and we have concluded that we have sufficient resources to accomplish the development of these properties.

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs, which include costs of construction, costs incurred in connection with performance of our obligations under investment or co-investment contracts and other expenses directly attributable to a particular development project, including finance costs. The portion of our finance costs that is directly attributable to construction of particular development projects is capitalized as cost of our construction work in progress and is not shown in our consolidated income statement. In 2010 and the six months ended June 30, 2011, approximately 7.8% and 22.9% of our finance costs, respectively, were capitalized.

#### *Costs and Efficiency*

We are one of the few integrated real estate developers in Russia. We believe that our integration is a significant competitive advantage that will help us increase profits in the long-term because it helps ensure a high level of operating efficiency and a competitive level of costs. The largest components of our costs of sales are discussed below.

#### *Cost of construction services*

Cost of construction services represented 75.4% and 80.3% of our cost of sales for the six months ended June 30, 2010 and 2011, respectively, and 66.6%, 75.1% and 64.6% of our cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. This cost is principally made up of the cost of materials, salaries and wages, overhead expenses and depreciation allocated to our real estate development segment as well as costs related to obtaining development rights and construction permits. The amount of cost of sales allocated to cost of construction services includes costs attributable to properties revenues from the sale of which are recognized in our real estate development segment. As we intend to concentrate more on the development of our own properties in the future (rather than construction of properties for third parties), we expect the share of the cost of construction services in our cost of sales to increase in the future.



### *Salaries and wages*

Salaries and wages (including social charges) represented 10.2% and 6.4% of our cost of sales for the six months ended June 30, 2010 and 2011, respectively, and 15.3%, 7.0% and 6.7% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. These expenses consist of wages and salaries paid to employees at our manufacturing plants and employees engaged in construction services provided to third parties and developers at certain of our projects where we act as an investor as well as social and pension contributions attributable to the salaries of such employees, whose costs are allocated to our construction and industrial segments. We expect that upward pressure on wages, salaries and social charges will continue to have a significant effect on our results of operations.

### *Overhead expenses*

Overhead expenses represented 12.9% and 6.3% of our cost of sales for the six months ended June 30, 2010 and 2011, respectively, and 3.0%, 13.6% and 12.8% of our cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. Overhead expenses mainly represent the cost of third party services that are allocable to our construction and industrial segments. These services include supply of electricity, heating and other utility services, and construction services provided by third parties. We expect the share of our overhead expenses in our cost structure to decrease in the future, as we intend to concentrate on development of our own properties.

### *Materials*

The cost of materials represented 0.7% and 6.3% of our cost of sales for the six months ended June 30, 2010 and 2011, respectively, and 10.5%, 3.0% and 2.8% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. This cost is principally made of the cost of raw materials (such as cement, crushed rock, gravel and sand), other construction materials (such as concrete, metal and fittings) and equipment that is allocable to our construction and industrial segments. There is generally a correlation between the price of construction materials and prices for residential real estate. Increases in prices in construction materials typically lag behind increases in residential real estate prices. However, developers are generally quicker to renegotiate prices for construction materials in response to significant downturns. We expect the total cost of materials to increase as a result of planned increase in construction volume. We also expect prices to increase as the residential real estate market continues to recover.

### *Depreciation*

Depreciation expenses represented 1.5% and 0.8% of our cost of sales for the six months ended June 30, 2010 and 2011, respectively, and 2.4%, 1.3% and 1.4% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. These expenses include depreciation of buildings, machinery and equipment at our construction and industrial sites as well as depreciation of equipment used to provide building maintenance services that are allocable to our construction and industrial segments.

### ***Effect of revision of social infrastructure costs***

During 2010, we revised certain master planning schemes and related construction budgets for social infrastructure and utilities for four residential projects, located in the Moscow region, with the view to a more efficient management of our cash flow through exercising better control over the construction process and third party payment terms. The revision of the master planning schemes resulted in a reduction of the net sellable area and a corresponding increase in the overall cost of infrastructure per square meter of the net sellable area. Since we allocate the cost of infrastructure on a proportionate basis related to the net sellable area sold, these reductions meant that the increased costs related to real estate units sold in prior years had to be recognized in the current period. As a result, additional costs of RUB 1,430 million were recognized during 2010 relating to apartments sold prior to December 31, 2009, which were recorded in effect of revision of social infrastructure costs and included in cost of sales.

In addition, in some cases, technical requirements to the social infrastructure of large residential developments under our investment contracts may be revised by relevant local or regional authorities after we have commenced construction on a development site, which may result in additional costs. See *“Risk Factors—Risks Relating to Real Estate Development—Our interest in a development may be reduced by governmental authorities, seeking to increase their interest in certain circumstances, or we may spend more than expected in carrying out certain urban development projects requested by such authorities under our investment contracts or otherwise”*. In 2008 and 2010, such changes in the design of social infrastructure

and utilities imposed by relevant local or regional authorities resulted in an increase of cost of sales by RUB 548 and RUB 2,751 million, respectively.

There were no revisions to master planning schemes or changes to the social infrastructure technical requirements with an effect on cost of sales during 2009.

### ***Impairment Losses***

Before the start of construction, our properties intended for development are recognized as development rights and are measured at cost less accumulated impairment losses. On commencement of construction, such development rights are reclassified as construction in progress, included in inventories. Inventories are stated at the lower of cost and net realizable value. Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. We recognize an impairment loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. See Note 3(h)(ii), “*Significant accounting policies — Impairment — Non-financial assets*” to the Audited Consolidated Financial Statements.

The overall decline in market prices for residential real estate, higher risks associated with our business resulting in a higher discount rate used to determine the present value of our future proceeds, the suspension of development activities leading to a delayed completion of our projects and decline in utilization of our production capacity of our industrial facilities resulted in a decline in the recoverable amounts of our development rights and property, plant and equipment as well as in a decline in net realizable value of our inventories. In 2008, 2009 and 2010, our loss from impairment of development rights, property, plant and equipment, intangible assets and write downs of inventories was RUB 24,028 million, RUB 4,671 million and RUB 1,106 million, respectively. During the six months ended June 30, 2011, we reversed some of the previously recognized impairment losses, which resulted in a net gain of RUB 1,710 million. The Market Value of our development project portfolio, as determined by CBRE, decreased from USD 12.3 billion as of January 1, 2008 to RUB 2.7 billion as of June 30, 2011. For a discussion of the impact of the decline of value of our real estate portfolio on our financial statements, see Note 20, “*Impairment losses on non-financial assets and write down of inventories*”, to the Audited Consolidated Financial Statements.

### ***Cost Saving and Cash Flow Preservation Measures***

In 2009, we took certain initiatives to respond to the global economic downturn, the recession in the Russian economy and a resulting decline in demand for housing. These initiatives included increasing our share of government sponsored lower margin mass-market projects in our project pipeline to help stabilize our level of sales; block sales of significant numbers of real estate units in our developments at a discount to off-set the amounts due to our suppliers or to pre-sell such real estate units at an early stage of construction; divestments of properties unrelated to our core business operations to maximize liquidity during the crisis; debt restructuring to reduce our finance costs; reduction of the inventory levels; and initiation of certain cost control measures, such as headcount reduction (our workforce was reduced from approximately 15,300 employees as of December 31, 2008 to approximately 10,900 employees as of December 31, 2009) and salary reductions. Administrative, distribution and marketing expenses were significantly cut. In addition, to conserve cash, we reduced our capital expenditure significantly in all segments during the year ended December 31, 2009.

In particular, to increase our share of government sponsored mass-market projects in the pipeline of our projects, we participated in more tenders to receive the right to enter into contracts with the federal and regional governments in a competitive selection process during 2009 and 2010. Despite lower margin related to such projects, governmental contracts generated increase in cash flows as apartments are typically pre-sold to the government. Based on the results of the tenders, we were selected for several contracts to sell apartments in our mass-market residential developments to governmental bodies and to perform construction works for the Russian Government and the Moscow Government. State purchases of completed real estate units were undertaken as a part of the Russian Government and the Moscow Government programs aimed at stimulating demand for real estate and providing developers with liquidity. In November 2009, based on the results of a tender organized by the Russian Government, we entered into a contract with the Russian Ministry of Defense for the sale of approximately 7 thousand square meters of housing in the Kaliningrad region to the Ministry of Defense. In January 2010, we entered into a contract to provide construction services for the Russian Ministry of Defense, pursuant to which we are participating in residential mass-market housing construction in the city of Podolsk in the Moscow region as a subcontractor.

Implementation of our cost control measures in 2009 resulted in a further reduction of our general, administrative, distribution and marketing expenses in 2010 compared to the prior corresponding periods when we incurred severance payments and other costs associated with the implementation of the cost cutting measures.

### *Seasonality*

Costs and revenues of our real estate development segment are generally higher in the third and fourth quarters of a year because we recognize costs and revenues related to sales of completed real estate units in a building after the building is completed and accepted by the State Commission, while a number of buildings accepted by the State Commission tends to increase towards the year end, because the administrative procedures of building acceptance generally provide for acceptance of more buildings in the second half of the year.

Revenues of our construction segment are also typically lower during the first quarter of the year as a result of decreased production and construction activity related to cold weather. In particular, MFS-PIK and the third party subcontractors that we engage are typically less productive in the winter months with respect to their activities relating to constructing foundations and frameworks for poured concrete buildings, as the technological processes for these activities are susceptible to low temperatures. The activities of DSK-2, DSK-3, 100 KGI, 480 KGI, and NSS, including assembly of pre-fabricated panel buildings in the Moscow Metropolitan Area, are generally not subject to seasonal effects.

### *Disposals*

In response to the economic downturn, between January 1, 2009 and June 30, 2011, we disposed of our interest in several subsidiaries and development projects unrelated to our core business operations in order to maximize liquidity and meet our working capital needs during the crisis, repay a portion of our indebtedness (see also “—*Liquidity and Capital Resources—Capital Resources—Debt restructuring completed in February 2011 – Disposal of non-core assets*”), reduce our costs and concentrate on our core business activity. Certain of the disposals in 2009 were to companies that were controlled by our Founding Shareholders. Our results of operations reflect the impact of these disposals. As a result, sales, expenses and profit for corresponding periods in different years are not directly comparable.

*Park-City.* In January 2011, we disposed of our 33% share in the Park City project, a high-end residential and commercial development, held through interests in several special purpose entities, as part of our strategy to divest non-core assets with a view to using the proceeds to reduce our indebtedness. We disposed of our share in the project to an affiliate of the Nomos-Bank group for a loss of RUB 2,724 million recognized as an impairment loss in our financial statements for the year ended December 31, 2010, taking into account the independent valuation obtained in connection with the sale and net debt associated with the asset. In February 2011, as part of our consideration for the sale of our interest in the Park City project, an unrelated company Rucklers Properties Limited provided us a loan in the amount of USD 67 million. We applied the funds received under this loan to make a partial prepayment of our debt to Nomos-Bank in the amount of USD 67 million. The loan from Rucklers Properties Limited was eventually repaid using the proceeds of a new financing facility received from Nomos-Bank in May 2011.

*Ochakovskiy ZhBK.* In July 2010, we entered into an agreement to sell a 100% interest in Ochakovskiy ZhBK, an entity holding development rights to a project located in the south of Moscow, to an unrelated third party for a total consideration of RUB 2,157 million. As at the date of the agreement we owned 51% in Ochakovskiy ZhBK. The transaction was to be settled in installments. In 2010, we received RUB 1,492 million accounted for as advances received as of December 31, 2010. In the six months ended June 30, 2011, we received the remaining RUB 665 million and transferred ownership of Ochakovskiy ZhBK to the purchaser in July 2011. See also “—*Recent Developments*”. In order to satisfy our obligation to sell a 100% interest, we entered into an agreement to acquire the remaining 49% in Ochakovskiy ZhBK from an unrelated third party in February 2011 for a total consideration of USD 30 million, payable by us in the first half of 2011.

*PIK Nerud.* In August 2009, we sold our non-ferrous mining division through the sale of a 100% interest in our subsidiary PIK Nerud, which, in turn, held controlling interests in several other entities engaged in mining, processing and sales of raw materials, as a part of our plan to dispose of certain non-core assets to repay a portion of our indebtedness. We sold our non-ferrous mining division in a transaction approved by our Board of Directors (though not as an interested party transaction under Russian law) to one of our creditors, Lakebed Trading Limited, for a total consideration of USD 65 million (RUB 2,077 million). Lakebed Trading Limited paid USD 30 million in cash and delivered to us promissory notes issued by our subsidiary PIK-Region in the amount of USD 35 million. The total consideration exceeded the valuation of the disposed asset, which had been prepared by an internationally recognized firm performing independent appraisal services and on this basis the transaction was determined by the Company to be on an arm’s-length basis. This transaction resulted in a gain of RUB 1,193 million.

At the time of the transactions and as at the date when the Audited Consolidated Financial Statements were issued, we were not able to identify the beneficial owners of Lakebed Trading Limited. Prior to closing of the PIK Nerud sale, we requested and

received a confirmation from representatives of Lakebed Trading Limited that, to their knowledge, the sale of PIK Nerud would not constitute an interested party transaction under Russian law. Mr. Zhukov did not disclose to us that Lakebed Trading Limited was connected to him. The transaction was not disclosed as a related party transaction in our consolidated financial statements. Since we were unable to identify the beneficial owner of Lakebed Trading Limited while indications existed that the transactions in fact were related party transactions, our auditors expressed a qualified audit opinion on the Audited Consolidated Financial Statements. These indications were as follows: (i) the remaining promissory notes issued to Lakebed Trading Limited were later returned to us by Gallows Marketing Group Ltd. and Quinturin, entities known to be affiliated with Mr. Zhukov, one of our Founding Shareholders, in separate transactions (ii) the loan underlying the promissory notes was originally made by IBG Development Group, a company beneficially owned by Mr. Zhukov, and later assigned to Lakebed Trading Limited, (iii) the loan provided by IBG Development Group was not on market terms, (iv) after the sale of PIK Nerud, there were reports in the Russian press indicating that PIK Nerud is now owned by Mr. Zhukov. We now believe that these transactions were in fact related-party transactions with an affiliate of Mr. Zhukov, one of our Founding Shareholders. See *“Related Party Transactions.”*

The financial results of our non-ferrous mining division were classified as discontinued operations in the Audited Consolidated Financial Statements. The consolidated statement of comprehensive income and consolidated statement of cash flows for 2009 and 2008 have been re-presented in the Audited Consolidated Financial Statements to show the discontinued operations separately from continuing operations.

*Storm Properties Group.* In September 2007, we acquired 50% plus one share in Sturm Properties Limited, the parent company of Storm Properties Group, for a total cash consideration of RUB 1,347 million in accordance with our then current strategy to expand into commercial real estate development segment. In February 2008, we partially exercised a call option granted to us and acquired an additional 4.33% interest in Sturm Properties Limited for a total cash consideration of RUB 189 million. Development of commercial real estate is more capital-intensive than development of residential properties and, as a result, the negative effect of the economic downturn on the financial position of commercial real estate developers was more pronounced than on the position of developers of residential properties. Storm Properties Group recorded substantial losses in 2008 and in 2009 and by April 2010 had negative net assets. We had insufficient financial resources to continue to invest in development of commercial properties. As a result, in April 2010, we sold our 54% interest in Sturm Properties Limited to Icelander Management S.A. for a negligible consideration, with a view to reducing our costs and concentrating on our core business activity. Since Sturm Properties Limited and its subsidiaries had negative net assets at the date of the disposal, the transaction resulted in a net gain of RUB 368 million for the year ended December 31, 2010. We did not retain any interest in Sturm Properties Limited or Storm Properties Group. In April 2010, we also acquired the remaining 20% interest in Silverport Management Limited from Sturm Properties Limited, thereby increasing our equity interest to 100%. At that time, Silverport Properties Limited indirectly held development rights with respect to a land plot intended for non-residential development on Startovaya Street in St. Petersburg, which permitted us to consolidate, through our subsidiaries, a 100% interest in the Pulkovo Estate.

*Lasteya Art.* In December 2009, we sold a 100% interest in Lasteya Art, which held rights to a land plot intended for the development of a high-end residential development located on Afanasevsky street in downtown Moscow, to Gallows Marketing Group Ltd., a company affiliated with Mr. Zhukov, one of our Founding Shareholders, for a total consideration of RUB 274 million in an arm’s-length transaction approved by our Board of Directors as an interested party transaction under Russian law. The total consideration exceeded the value assigned to the disposed asset in a periodic valuation report prepared by an independent appraiser. This transaction allowed us to reduce our working capital needs by assigning to Gallows Marketing Group Ltd. our contractual commitments to individuals who had already invested in construction. We also transferred to the purchaser rights to an apartment and parking spaces in the development that we acquired under the co-investment agreements. Gallows Marketing Group Ltd. satisfied its payment obligation for the shares of Lasteya Art and for the rights to the apartment and parking spaces by delivering to us promissory notes issued by our subsidiary PIK-Region in the amount of USD 22 million. We recognized a loss of RUB 130 million on this sale because the total consideration received was lower than the carrying value of the construction in progress, which reflects an adjustment for advances from individual investors in the aggregate amount of RUB 823 million (at the U.S. dollar and Euro exchange rates as of December 15, 2009) that had been received by us by the time of the sale.

*Moreliabay Management Limited.* In December 2009, we sold an 89% interest in Moreliabay Management Limited, which held rights to a land plot intended for non-residential development in the Moscow region (the North-West Towers project) to an unrelated third party. This transaction allowed us to reduce the level of our total debt, because the purchaser of Moreliabay Management Limited, who made a nominal cash payment of RUB 0.04 million, assumed the debt in the amount of RUB 1,752 million owed by Moreliabay Management Limited to the Russian Deposit Insurance Agency as a successor of Sobinbank. Also, the purchaser of Moreliabay Management Limited agreed to pay an additional consideration equal to 50% of Moreliabay

Management Limited's profit for the period before December 2014. The transaction resulted in a loss of RUB 1,117 million, which would have otherwise been recorded in 2009 as an impairment of the development rights controlled by Moreliabay Management Limited. In April 2010, we disposed of the remaining 11% interest in Moreliabay Management Limited.

*Marine Facade.* In October 2009, as a part of our plan to dispose of certain non-core assets to repay a portion of our indebtedness, we sold land plots in St. Petersburg, which were accounted for as development rights, for a total cash consideration of RUB 2,164 million in a transaction arranged by Promsvyazbank, one of our creditors. The proceeds from the sale were used to satisfy some of our debt obligations. The disposal of our interest in Marine Facade resulted in a gain of RUB 109 million. This sale also permitted us to reverse the impairment loss of RUB 845 million recognized in 2008 in respect of these development rights because the amount of the consideration received exceeded the carrying amount of the asset.

*Avtorita Holdings Ltd.* In July 2009, we terminated trust deeds entered into with FMC Realtors Holding Inc. and IBG Development Group Inc. with regard to Avtorita Holdings Ltd., an entity operating corporate aircrafts used primarily for the maintenance of our corporate image and representation purposes. At the time of the transaction, FMC Realtors Holding Inc. and IBG Development Group Inc. were entities effectively controlled by our Founding Shareholders, Mr. Zhukov and Mr. Pisarev. Immediately following the termination of those trust deeds, we disposed of our 100% interest in Avtorita Holdings Ltd. to FMC Realtors Holding Inc. and IBG Development Group Inc. for nominal consideration, resulting in a loss of RUB 216 million. The transaction was approved by our Board of Directors as an interested-party transaction. The sale was part of our cost saving strategy to eliminate future corporate aircraft maintenance costs. The aircraft purchased by Avtorita Holdings Ltd. was subject to a leasing arrangement. The sale of Avtorita Holdings Ltd. resulted in a loss of RUB 216 million, which was primarily a result of the disposal of a receivable due from a related party for the use of the aircraft, which would have been otherwise written off as uncollectible at the end of 2009.

*Rostovkapstroy.* In February 2009, we disposed of a 100% interest in Rostovkapstroy, an entity which carried out the development of residential properties in Rostov-on-Don, to an unrelated third party for a total consideration of RUB 151 million, resulting in a gain of RUB 82 million. We disposed of our interest in Rostovkapstroy to reduce our cash commitments to better manage our cash flow. Since the sale, our cash flow position has improved and we took the opportunity to buy this project back in June 2011 by acquiring an 87.5% interest in Rostovkapstroy and a 60% interest in another entity, LLC SroyYugResource, for a total consideration of USD 3.9 million.

### ***Acquisitions***

*Mayak.* In March 2009, we acquired a 100% interest in Mayak, an entity that holds development rights to a land plot in Moscow, in exchange for the extinguishment of a loan of RUB 832 million owed to us. The principal amount of the extinguished loan was RUB 2,838 million and, following a default by the borrower, we recognized an impairment loss of RUB 2,006 million for the uncollectible portion of the loan in 2008.

*NovorosGrazhdanproekt.* In February 2009, we acquired a 40% interest in NovorosGrazhdanproekt, a design and architectural company that carries out the preparation of project design documentation, thereby increasing our equity interest from 57% to 97%. The share interest was purchased from the minority shareholders of NovorosGrazhdanproekt in exchange for the extinguishment of a loan of RUB 201 million owed to us by these minority shareholders.

*Alanteya.* In November 2008, we acquired a 50% interest in Alanteya, an entity that holds development rights with respect to a land plot in Moscow, in exchange for the extinguishment of a loan of RUB 610 million owed to us.

*Porgots Limited.* In November 2008, we acquired a 50% interest in Porgots Limited, an entity holding a 15% share in the Park-City development, from Gletzel Limited for a total consideration of RUB 2,882 million, thereby increasing our effective interest in the Park-City development to 33%. We acquired the interest in Porgots Limited because we made an informal commitment to Gletzel Limited in connection with the sale of our interest in 2007 to repurchase this interest if we fail to promptly obtain necessary state permissions and approvals. To fund the acquisition, we made a cash payment in the amount of RUB 823 million and issued promissory notes in the aggregate amount of RUB 2,059 million.

*Blakeston Holdings Limited.* In December 2008, we acquired a 50% interest in Blakeston Holding Limited from Worchester Enterprises Limited for a total consideration of USD 205 million, thereby increasing our equity interest in Blakeston Holding Limited to 100%. Blakeston Holding Limited owned a 76% interest in KSRZ, an entity holding development rights to the Matulinskaya Street 7 development in Moscow. With the remaining 24% interest in KSRZ held by our subsidiary Sroycoresurs, taking control of Blakeston Holding Limited has enabled us to consolidate our interest in the development. We

satisfied our payment obligations by making a cash payment in the amount of USD 82 million, assigning a loan receivable from a third party to Worchester Enterprises Limited, in the amount of USD 102 million and issuing promissory notes in the total amount of USD 21 million.

## Results of Operations

### *Six months Ended June 30, 2011 compared to the Six Months Ended June 30, 2010*

The following table sets forth income statement data, including as a percentage of revenues, for the six months ended June 30, 2011 and the six months ended June 30, 2010.

	For the six months ended June 30			
	2010		2011	
	mln RUB	%	mln RUB	%
<b>Revenues</b> .....	15,126	<b>100</b>	22,794	<b>100</b>
Cost of sales, including .....	(15,170)	(100.3)	(19,060)	(83.6)
Cost of construction services .....	7,553	49.9	15,302	67.1
Effect of revision of social infrastructure costs .....	3,892	25.7	-	-
Salaries and wages .....	1,547	10.2	1,211	5.3
Overhead expenses .....	1,849	12.2	1,195	5.2
Materials .....	108	0.7	1,196	5.2
Depreciation .....	220	1.5	156	0.7
<b>Gross profit</b> .....	<b>(44)</b>	<b>(0.3)</b>	<b>3,734</b>	<b>16.4</b>
Distribution expenses .....	(222)	(1.5)	(301)	(1.3)
Administrative expenses .....	(1,780)	(11.8)	(1,913)	(8.4)
Impairment losses and reversal of impairment loss .....	(613)	(4.0)	1,710	7.5
Other income and expenses, net .....	79	0.5	543	2.4
Finance income .....	211	1.3	2,403	10.5
Finance costs .....	(4,283)	(28.3)	(2,160)	(9.5)
Share of loss of equity accounted investees, net of income tax .....	(33)	(0.2)	-	-
<b>Loss before income tax</b> .....	<b>(6,685)</b>	<b>(44.1)</b>	<b>4,016</b>	<b>17.6</b>
Income tax benefit/(expense) .....	1,514	10	(830)	(3.6)
<b>(Profit)/Loss and total comprehensive   loss for the period</b> .....	<b>(5,171)</b>	<b>(34.2)</b>	<b>3,186</b>	<b>14.0</b>

### *Revenues*

Revenues increased by RUB 7,668 million, or 50.7%, from RUB 15,126 million for the six months ended June 30, 2010 to RUB 22,794 million for the six months ended June 30, 2011 largely driven by an increase in revenues from the sale of apartments in the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

Revenues	For the six months ended June 30,	
	2010	2011
	mln RUB	
Revenue from sale of apartments .....	10,211	17,930
Revenues from construction contracts .....	3,159	2,149
Revenues from sale of construction materials and other sales .....	1,756	2,715
<b>Total</b> .....	<b>15,126</b>	<b>22,794</b>

Revenues from sale of apartments increased by RUB 7,719 million, or 75.6%, from RUB 10,211 million for the six months ended June 30, 2010 to RUB 17,930 million for the six months ended June 30, 2011 primarily as a result of an increase in the number of apartments for which revenue was recognized in the six months ended June 30, 2010 compared to the six months ended June 30, 2011. Many apartments for which revenue was recognized in the six months ended June 30, 2011 had been pre-sold in prior periods, but revenues from such sales were not recognized until 2011, when the buildings were accepted by the

State Commission. During the six months ended June 30, 2010, we recognized sales of 152 thousand square meters of apartments in completed buildings accepted by the State Commission, compared to sales of 260 thousand square meters of apartments during the six months ended June 30, 2011. The increase primarily reflects a higher level of construction and an increase in the number of buildings accepted by the State Commission during the six months ended June 30, 2011. During the six months ended June 30, 2011, we recognized revenues from the block sales of apartments to our suppliers in exchange for goods and services provided (the “**Block Sales**”), in which we engaged in 2009 and the first half of 2010, in the amount of RUB 2,739 million compared to RUB 1,755 million recognized in the six months ended June 30, 2010.

Revenues from construction contracts decreased by RUB 1,010 million, or 32.0%, from RUB 3,159 million for the six months ended June 30, 2010 to RUB 2,149 million for the six months ended June 30, 2011 primarily due to active work on a significant project for the Russian Ministry of Defense in the city of Podolsk in the Moscow region (where we were engaged as a subcontractor) in the six months ended June 30, 2010 and an increase in the volume of our development in the six months ended June 30, 2011, which led to a decrease in construction work we perform for third parties.

Revenues from sale of construction materials and other sales increased by RUB 959 million, or 54.6%, from RUB 1,756 million for the six months ended June 30, 2010 to RUB 2,715 million for the six months ended June 30, 2011 primarily as a result of an increase in the sales volume of construction materials and a greater number of clients for which we provide building maintenance services.

#### *Cost of sales*

Cost of sales increased by RUB 3,890 million, or 25.6%, from RUB 15,170 million for the six months ended June 30, 2010 to RUB 19,060 million for the six months ended June 30, 2011 primarily due to an increase in cost of construction services of RUB 7,553 million resulting from a greater number of buildings accepted by the State Commission in the six months ended June 30, 2011 compared to the corresponding period in 2010. The increase was partially offset by the recognition in the six months ended June 30, 2010 of costs of RUB 3,892 million resulting from the revision of certain master construction plans and budgets as well as changes in the design of social infrastructure and utilities imposed by local authorities. No such costs were recognized in the six months ended June 30, 2011. See “—*Key Factors Affecting Our Results of Operations — Effect of revision of social infrastructure costs.*”

Our cost of construction services increased by RUB 7,749 million, or 102.6%, from RUB 7,553 million for the six months ended June 30, 2010 to RUB 15,302 million for the six months ended June 30, 2011. The increase in the cost of construction services was a result of an increase in the number of buildings accepted by the State Commission in the six months ended June 30, 2011 compared to the corresponding period in 2010 resulting from a higher level of construction.

Salaries and wages (including social charges) decreased by RUB 336 million, or 21.7%, from RUB 1,547 million for the six months ended June 30, 2010 to RUB 1,211 million for the six months ended June 30, 2011. The decrease in salaries and wages was primarily driven by lower levels of activity in our construction segment.

Our overhead expenses decreased by approximately RUB 654 million, or 35.4%, from RUB 1,849 million for the six months ended June 30, 2010 to RUB 1,195 million for the six months ended June 30, 2011 primarily as a result of a decrease in the use of external contractors and subcontractors.

The cost of materials increased by RUB 1,088 million, or 1007.4%, from RUB 108 million for the six months ended June 30, 2010 to RUB 1,196 million for the six months ended June 30, 2011. The increase in the cost of materials was primarily a result of higher volumes of construction materials necessary for our manufacturing facilities due to their higher utilisation rates.

Depreciation expenses decreased by RUB 64 million, or 29.1%, from RUB 220 million for the six months ended June 30, 2010 to RUB 156 million for the six months ended June 30, 2011. The decrease in depreciation resulted from a lower base value of some of our assets due to impairments recognised in 2010.

#### *Gross profit for the period*

Our gross profit increased by RUB 3,778 million, from negative RUB 44 million for the six months ended June 30, 2010 to positive RUB 3,734 million for the six months ended June 30, 2011. Gross profit margin calculated as a percentage of revenues increased from negative 0.3% for the six months ended June 30, 2010 to 16.4% for the six months ended June 30, 2011.

The increase in our gross profit and gross profit margin for the six months ended June 30, 2011 was primarily as a result of the recognition in the six months ended June 30, 2010 of costs of RUB 3,892 million resulting from the revision of certain master construction plans and budgets as well as changes in the design of social infrastructure and utilities imposed by local authorities.

#### *Distribution expenses*

Distribution expenses increased by RUB 79 million, or 35.6%, from RUB 222 million for the six months ended June 30, 2010 to RUB 301 million for the six months ended June 30, 2011. This increase was primarily driven by an increase in advertising expenses and salaries and wages in the distribution division. The increase was partially offset by a decrease in other distribution expenses.

Salaries and wages in the distribution division increased by RUB 59 million, or 89.4%, from RUB 66 million for the six months ended June 30, 2010 to RUB 125 million for the six months ended June 30, 2011, as a result of higher commission payments due to sales personnel because of increased sales.

Advertising expenses increased by RUB 84 million, or 144.8%, from RUB 58 million for the six months ended June 30, 2010 to RUB 142 million for the six months ended June 30, 2011, as a result of more active marketing of our projects as well as launches of new development projects.

Other distribution expenses, including transportation expenses and the cost of various auxiliary services provided by third parties, decreased by RUB 64 million, or 66.0%, from RUB 97 million for the six months ended June 30, 2010 to RUB 33 million for the six months ended June 30, 2010, as a result of the curtailment of operations of our subsidiary involved in procurement, which incurred a significant part of other distribution expenses in the six months ended June 30, 2010.

#### *Administrative expenses*

Administrative expenses increased by RUB 133 million, or 7.5%, from RUB 1,780 million for the six months ended June 30, 2010 to RUB 1,913 million for the six months ended June 30, 2011. This increase resulted from an increase in salaries and wages paid to our administrative staff and in other administrative expenses. The increase was partially offset by a decrease in fees paid for professional and other services and depreciation.

Salaries and wages paid to members of our administrative staff increased by RUB 142 million, or 14.1%, from RUB 1,006 million for the six months ended June 30, 2010 to RUB 1,148 million for the six months ended June 30, 2011, primarily as a result of an increase in the headcount of our administrative staff and higher management remuneration.

Amount of fees paid for professional and other services decreased by RUB 80 million, or 26.8%, from RUB 298 million for the six months ended June 30, 2010 to RUB 218 million for the six months ended June 30, 2011, as a result of transferring certain functions in-house and discontinuing the use of external consultants for those functions.

Amount of depreciation decreased by RUB 15 million, or 10.9 %, from RUB 138 million for the six months ended June 30, 2010 to RUB 123 million for the six months ended June 30, 2011, as a result of a write-off of furniture and office equipment.

Other administrative expenses, which include business representative, travel and social expenses, increased by RUB 80 million, or 26.0%, from RUB 338 million for the six months ended June 30, 2010 to RUB 426 million for the six months ended June 30, 2011, primarily as a result of the transfer of certain functions in-house from external consultants and increased investor relations activities.

#### *Impairment losses and reversal of impairment loss, net*

Impairment losses and reversal of impairment loss, net increased by RUB 2,323 million, from negative RUB 613 million for the six months ended June 30, 2010 to positive RUB 1,710 million for the six months ended June 30, 2011 primarily due to lower impairment losses recognized in respect of property, plant and equipment, development rights and inventory.

Impairment loss decreased by RUB 3,482 million, or 90.7%, from RUB 3,840 million for the six months ended June 30, 2010 to RUB 358 million for the six months ended June 30, 2011. The decrease in impairment loss was primarily due to a significantly smaller impairment loss in respect of development rights (RUB 53 million compared to RUB 2,860 million) and a



smaller write-down of inventory (RUB 188 million compared to RUB 738 million) in the six months ended June 30, 2011. The impairment losses in the six months ended June 30, 2010 were driven primarily by declining real estate market prices and adjustments to the schedules of our construction projects.

Reversal of impairment and write down of inventory decreased by RUB 1,159 million, or 35.9%, from RUB 3,227 million for the six months ended June 30, 2010 to RUB 2,068 million for the six months ended June 30, 2011, primarily due to a reversal of the significant impairment of our most valuable development projects recorded in 2008 and 2009 during the six months ended June 30, 2010. The decrease was partially offset by a reversal of impairment in respect of property, plant and equipment of RUB 495 million in the six months ended June 30, 2011 due to changes in the utilisation rate of our manufacturing facilities.

*Other income and expenses, net*

Other income and expenses increased by RUB 464 million, or 587.3%, from income of RUB 79 million for the six months ended June 30, 2010 to income of RUB 543 million for the six months ended June 30, 2011. This increase resulted primarily from the accrual of penalties and fines in the amount of RUB 1,039 million primarily relating to the claims brought against us by the Moscow government during the six months ended June 30, 2010 and a partial reversal of such penalties and fines in the amount of RUB 584 million during the six months ended June 30, 2011. The increase was partially offset by the effect of the termination of a long-term lease agreement for a land plot in Nizny Novgorod, which resulted in a gain of RUB 857 million, and a gain of RUB 331 million recognized on the sale of Sturm Properties Limited in the six months ended June 30, 2010. See “*Business—Legal Matters*” and “*—Key Factors Affecting Our Results of Operations—Disposals.*”

*Finance income*

Finance income increased by RUB 2,192 million, or more than ten-fold, from RUB 211 million for the six months ended June 30, 2010 to RUB 2,403 million for the six months ended June 30, 2011. This increase primarily resulted from the reversal of bank penalties accrued in prior periods in respect of a credit facility provided by Nomos Bank in the amount of RUB 1,312 million and foreign exchange gains of RUB 894 million arising from the appreciation of the Rouble against the U.S. dollar in the six months ended June 30, 2011 resulting in a revaluation of our borrowings that are denominated in U.S. dollars.

*Finance costs*

Finance costs decreased by RUB 2,123 million, or 49.6%, from RUB 4,283 million for the six months ended June 30, 2010 to RUB 2,160 million for the six months ended June 30, 2011. This decrease resulted primarily from lower penalties for late repayment of loans in the six months ended June 30, 2011 as well as foreign exchange losses and losses on impairment of financial assets recorded in the six months ended June 30, 2010.

The amounts of expenses comprising the finance costs for the six months ended June 30, 2010 and 2011 are presented in the following table:

	<b>For the six months ended June 30,</b>	
	<b>2010</b>	<b>2011</b>
	<b>mln RUB</b>	
Interest expense .....	2,103	1,963
Penalties for late repayment of loans .....	1,180	138
Foreign exchange losses .....	472	-
Change in non-controlling interest in limited liability companies ....	-	59
Losses on impairment of financial assets .....	528	-
<b>Finance costs</b> .....	<b>4,283</b>	<b>2,160</b>

Interest expense decreased by RUB 140 million, or 6.7%, from RUB 2,103 million for the six months ended June 30, 2010 to RUB 1,963 million for the six months ended June 30, 2011 primarily as a result of decreases in interest rates payable by us under our credit facilities [due to renegotiation of credit terms with some of our existing lenders and partial refinancing of our debt].

Penalties for late repayment of loans decreased by RUB 1,042 million, or 88.3%, from RUB 1,180 million for the six months ended June 30, 2010 to RUB 138 million for the six months ended June 30, 2011 primarily as a result of the accrual of penalties for late repayment in respect of a credit facility provided by Nomos Bank in the six months ended June 30, 2010.

We did not record foreign exchange losses in the six months ended June 30, 2011 compared to RUB 472 million foreign exchange losses in the six months ended June 30, 2010, due to the appreciation of the Rouble against the U.S. dollar during the six months ended June 30, 2011.

In the six months ended June 30, 2011, we incurred costs from change in non-controlling interest in limited liability companies in the amount of RUB 59 million, as compared to the six months ended June 30, 2010, primarily due to the fact that one of the limited liability companies in which we have a non-controlling interest commenced sales of apartments in the six months ended June 30, 2011.

We did not record losses on impairment of financial assets in the six months ended June 30, 2011 compared to a RUB 528 million losses on impairment of financial assets in the six months ended June 30, 2010. The loss during the six months ended June 30, 2010 arose from the inclusion in the provision for doubtful accounts of two loans made by us in connection with the performance of construction services.

*Share of loss of equity accounted investees, net of income tax*

We did not record a share of loss of equity accounted investees, net of income tax, in the six months ended June 30, 2011 compared to RUB 33 million in the six months ended June 30, 2010 due to the disposition of the Park City project in January 2011. See “—*Key Factors Affecting Our Results of Operations — Disposals*”.

*Income tax benefit/expense*

We recorded income tax benefit of RUB 1,514 million in the six months ended June 30, 2010 compared to income tax expense of RUB 830 million in the six months ended June 30, 2011. The change resulted primarily from a RUB 1,344 million adjustment to prior year taxable income as a result of the decision of the Group to apply for a deduction from prior years taxable income for expenses previously considered non-deductable (the application was accepted) and a deferred tax credit of RUB 965 million recognized in the six months ended June 30, 2010. The change also reflected the fact that we had a profit before income tax in the six months ended June 30, 2011 compared to a loss before income tax in the six months ended June 30, 2010.

*Profit/loss and total comprehensive income for the period*

As a result of the above, we recorded total comprehensive profit of RUB 3,186 million for the six months ended June 30, 2011 compared to total comprehensive loss of RUB 5,171 million for the six months ended June 30, 2011.

***Year Ended December 31, 2010 compared to the Year Ended December 31, 2009***

The following table sets forth income statement data, including as a percentage of revenues, for the years ended December 31, 2010 and 2009.

As of January 1, 2009, we applied newly adopted IFRS 8 (Operating Segments). As of January 1, 2010, we have revised the composition of our reportable segments to reflect the changes in our internal organizational structure. See “—*Overview*.” Comparative segment information for the year ended December 31, 2009 and 2008 has been restated accordingly.

Because of the divestiture of our non-ferrous mining division in 2009 (see “—*Key Factors Affecting Our Results of Operations — Disposals*”), the Audited Consolidated Financial Statements for the year ended December 31, 2009 show discontinued operations separately from continuing operations.

	<b>For the year ended December 31,</b>			
	<b>2009</b>		<b>2010</b>	
	<i>(restated)*</i>			
	mln RUB	%	mln RUB	%
<b>Revenues</b> .....	<b>41,175</b>	<b>100</b>	<b>38,090</b>	<b>100</b>
Cost of sales, including.....	(33,218)	(80.7)	(35,598)	(93.5)
Cost of construction services .....	(24,948)	(60.6)	(22,985)	(60.3)
Effect of revision of social infrastructure costs .....	-	-	(4,181)	(11.0)
Salaries and wages .....	(2,318)	(5.6)	(2,392)	(6.3)
Overhead expenses.....	(4,526)	(11.0)	(4,543)	(11.9)
Materials.....	(985)	(2.4)	(1,014)	(2.7)
Depreciation .....	(441)	(1.1)	(483)	(1.3)
<b>Gross profit</b> .....	<b>7,957</b>	<b>19.3</b>	<b>2,492</b>	<b>6.5</b>
Gain/(loss) on disposal of subsidiaries and development rights, net.....	(1,272)	(3.1)	368	1.0
Distribution expenses .....	(477)	(1.2)	(488)	(1.3)
Administrative expenses.....	(3,890)	(9.4)	(3,372)	(8.9)
Impairment losses and reversal of impairment loss .....	(4,671)	(11.3)	(1,106)	(2.9)
Other income and expenses, net.....	(391)	(0.9)	(373)	(1.0)
Finance income.....	771	1.9	325	0.9
Finance costs.....	(9,801)	(23.8)	(5,930)	(15.6)
Share of loss of equity accounted investees, net of income tax.....	(41)	(0.1)	(52)	(0.1)
<b>Loss before income tax</b> .....	<b>(11,815)</b>	<b>(28.7)</b>	<b>(8,136)</b>	<b>(21.4)</b>
Income tax benefit/(expense) .....	(866)	(2.1)	2,051	5.4
<b>Loss from continuing operations</b> .....	<b>(12,681)</b>	<b>(30.8)</b>	<b>(6,085)</b>	<b>(16.0)</b>
Profit from discontinued operations, net of tax.....	1,193	2.9	-	-
<b>Loss and total comprehensive loss for   the year</b> .....	<b>(11,488)</b>	<b>(27.9)</b>	<b>(6,085)</b>	<b>(16.0)</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

#### Revenues

Revenues decreased by RUB 3,085 million, or 7.5%, from RUB 41,175 million for the year ended December 31, 2009 to RUB 38,090 million for the year ended December 31, 2010 largely driven by the decrease in revenues from the sale of apartments in 2010 compared to 2009.

	<b>For the year ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(restated)*</i>	
	mln RUB	
Revenue from sale of apartments .....	30,740	27,123
Revenues from construction contracts .....	7,164	6,110
Revenues from sale of construction materials and other sales .....	3,271	4,857
<b>Total</b> .....	<b>41,175</b>	<b>38,090</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

Revenues from sale of apartments decreased by RUB 3,617 million, or 11.8%, from RUB 30,740 million for the year ended December 31, 2009 to RUB 27,123 million for the year ended December 31, 2010 primarily as a result of a decrease in the number of apartments for which revenue was recognized in the year ended December 31, 2010 compared to the year ended December 31, 2009. Many apartments in such buildings (including the apartments, which were the subject of the Block Sales of apartments to suppliers, discussed below) had been pre-sold in prior periods, but revenues from such sales were not recognized until 2009 and 2010, when the buildings were accepted by the State Commission. During 2009, we recognized sales

of 492 thousand square meters of apartments in completed buildings accepted by the State Commission, compared to sales of 434 thousand square meters of apartments during 2010. The decrease primarily reflects a lower level of construction during the economic downturn arising from cash flow constraints. See “— *Key Factors Affecting Our Results of Operations — Macroeconomic Factors and Demand for Housing*”.

In 2009 and in the beginning of 2010, we engaged in Block Sales. Such Block Sales were a one-off measure designed to overcome severe liquidity constraints in 2009 and in the beginning of 2010. Obligations of our suppliers to pay for the apartments were offset against our obligations to pay for supplied goods and services. The per square meter prices of apartments that were the subject of the Block Sales were up to 10-15% lower than prevailing market prices. The aggregate amount of such Block Sales in 2009 and 2010 was approximately RUB 17,000 million. Approximately RUB 6,497 million of the total Block Sales were attributable to apartments in buildings that were accepted by the State Commission and recognized as revenue in the year ended December 31, 2010. Approximately RUB 7,376 million of the total Block Sales were attributable to apartments in buildings that were accepted by the State Commission and recognized as revenue in the year ended December 31, 2009. The remaining portion of costs and revenues relating to such Block Sales will be recognized in 2011 and subsequent periods.

Revenues from construction contracts decreased by RUB 1,054 million, or 14.7%, from RUB 7,164 million for the year ended December 31, 2009 to RUB 6,110 million for the year ended December 31, 2010 primarily due to a decrease in the volume of work in 2010 and the fact that some of the significant construction contracts on which we worked in 2010 were with governmental agencies for construction of economy class buildings and generated lower revenues. For the years ended December 31, 2009 and 2010, construction contract revenues of RUB 3,884 million and RUB 7,230 million, respectively, related to construction services, which were provided to developers of buildings where we participated as a co-investor.

Revenues from sale of construction materials and other sales increased by RUB 1,586 million, or 48.5%, from RUB 3,271 million for the year ended December 31, 2009 to RUB 4,857 million for the year ended December 31, 2010 primarily a result of an increase in sales volumes to third parties arising from a lower volume of development (and the resulting decrease in internal demand for construction materials) and better market conditions in the second half of 2010.

#### *Cost of sales*

Cost of sales increased by RUB 2,380 million, or 7.2%, from RUB 33,218 million for the year ended December 31, 2009 to RUB 35,598 million for the year ended December 31, 2010 primarily due to a revision of master planning schemes and construction budgets and new technical requirements for social infrastructure and utilities for four residential projects in the year ended December 31, 2010, partially offset by a reduction in the cost of construction services. The revisions of master planning schemes and changes in the technical requirements for social infrastructure had a total effect of RUB 4,181 million on cost of sales in the year ended December 31, 2010. There was no revision of the master planning schemes or new technical requirements to the social infrastructure, which had an effect on cost of sales during the year ended December 31, 2009. See “—*Key Factors Affecting Our Results of Operations — Effect of revision of social infrastructure costs.*”

Our cost of construction services decreased by RUB 1,963 million, or 7.9%, from RUB 24,948 million for the year ended December 31, 2009 to RUB 22,985 million for the year ended December 31, 2010. The decrease in the cost of construction services in 2010 was a result of a decrease in the number of buildings accepted by the State Commission in 2010.

Salaries and wages (including social charges) increased by RUB 74 million, or 3.2%, from RUB 2,318 million for the year ended December 31, 2009 to RUB 2,392 million for the year ended December 31, 2010. The increase in salaries and wages in 2010 was primarily driven by inflation and an increase in the number of employees in 2010 compared to 2009.

Our overhead expenses increased by approximately RUB 17 million, or 0.4%, from RUB 4,526 million for the year ended December 31, 2009 to RUB 4,543 million for the year ended December 31, 2010.

The cost of materials increased by RUB 29 million, or 2.9%, from RUB 985 million for the year ended December 31, 2009 to RUB 1,014 million for the year ended December 31, 2010. The increase in the cost of materials resulted primarily from an increase in prices of construction materials (principally, cement, concrete and fittings), necessary for our industrial segment.

Depreciation expenses increased by RUB 42 million, or 9.5%, from RUB 441 million for the year ended December 31, 2009 to RUB 483 million for the year ended December 31, 2010. The increase in depreciation resulted from the general increase in depreciable property, plant and equipment in use due to an increase in assets subject to accelerated depreciation.

### *Gross profit for the year*

Our gross profit decreased by RUB 5,465 million, or 68.7%, from RUB 7,957 million for the year ended December 31, 2009 to RUB 2,492 million for the year ended December 31, 2010. Gross profit margin calculated as a percentage of revenues decreased from 19.3% for the year ended December 31, 2009 to 6.5% for the year ended December 31, 2010.

The decrease of the gross profit and the gross profit margin for the year ended December 31, 2010 was primarily a result of the cumulative effect of the following items (as discussed in more detail above):

- revision of the master planning schemes of several properties that we were developing, which resulted in a decrease of the net sellable area of our properties and a corresponding increase of the cost of infrastructure per square meter, which was recognized in the year ended December 31, 2010;
- imposition of additional requirements related to design of social infrastructure and utilities on us by the local authorities, the costs of which were paid in the year ended December 31, 2010 in relation to apartment units sold in previous years; and
- the Block Sales of apartments to suppliers at a discount of approximately 10-15% to the then current market price; even though we routinely sell blocks of real estate units in our developments at early stages of construction, the Block Sales were a one-off measure to overcome severe liquidity constraints in 2009 and in the beginning of 2010.

### *Gain/loss on disposal of subsidiaries and development rights, net*

In the year ended December 31, 2009 and 2010, we disposed of our interest in several subsidiaries and development projects unrelated to our core business operations in order to improve our liquidity and help meet our working capital needs during and after the economic downturn, repay a portion of our debt, reduce our costs and concentrate on our core business activity.

In April 2010, we sold Sturm Properties Limited, the parent company of Storm Properties Group, and its subsidiaries operating in the commercial real estate segment for a negligible consideration to reduce our costs and concentrate on our core business activity. Since the subsidiaries had negative net assets at the date of disposal, the transaction resulted in a gain in the amount of RUB 368 million.

For the year ended December 31, 2009, we recognized a loss on the disposal of subsidiaries and development rights of RUB 1,272 million. This loss resulted from the following transactions:

- the sale of a 100% interest in Lasteya Art, which held rights to a land plot intended for the development of a high-end residential development located on Afanasevsky Street in downtown Moscow, at a loss of RUB 130 million;
- the sale of an 89% interest in Moreliabay Management Limited, which held rights to a land plot intended for non-residential development in the Moscow region (the North-West Towers project), at a loss of RUB 1,117 million;
- the sale of a 100% interest in Avtorita Holdings Ltd., an entity operating corporate aircraft, at a loss of RUB 216 million;
- the sale of a land plot in St. Petersburg, which was accounted for as a development right, at a gain of RUB 109 million (which partially offset the loss); and
- the sale of a 100% interest in Rostovkapstroy, which carried out the development of residential properties in Rostov-on-Don, at a gain of RUB 82 million (which partially offset the loss).

In addition, in August 2009, we sold PIK Nerud, our non-ferrous mining division, at a gain of RUB 1,193 million. The financial result of this division is shown separately in the Audited Consolidated Financial Statements because discontinued operations are presented separately from continuing operations.

For the discussion of these transactions, see “—Key Factors Affecting Our Results of Operations — Disposals” and Notes 6 and 11 to the Audited Consolidated Financial Statements.

### *Distribution expenses*

Distribution expenses increased by RUB 11 million, or 2.3%, from RUB 477 million for the year ended December 31, 2009 to RUB 488 million for the year ended December 31, 2010. This increase was primarily driven by an increase in salaries and wages relating to distribution expenses. The increase was partially offset by a decrease in other distribution expenses.

Salaries and wages in the distribution division increased by RUB 30 million, or 16.2%, from RUB 185 million for the year ended December 31, 2009 to RUB 215 million for the year ended December 31, 2010, as a result of inflation and an increase in the number of employees.

Advertising expenses increased by RUB 2 million, or 1.3%, from RUB 152 million for the year ended December 31, 2009 to RUB 154 million for the year ended December 31, 2010, as a result of commencement of new development projects and increased participation in various exhibitions, conferences and other industry events.

Other distribution expenses, including transportation expenses and the cost of various auxiliary services provided by third parties, increased by RUB 7 million, or 5.2%, from RUB 133 million for the year ended December 31, 2009 to RUB 140 million for the year ended December 31, 2010, as a result of an increase in prices and higher levels of activity.

### *Administrative expenses*

Administrative expenses decreased by RUB 518 million, or 13.3%, from RUB 3,890 million for the year ended December 31, 2009 to RUB 3,372 million for the year ended December 31, 2010. This decrease resulted from the implementation of our cost saving program, which included, *inter alia*, a decrease in the headcount of administrative staff, optimization of our administrative structure, salary reduction, tightened business expense reimbursement policies and disposal of the corporate jet and yacht, used for business representative purposes (see “— *Gain/loss on disposal of subsidiaries and development rights, net*” above). The decrease was also due to a decrease in salaries and wages paid to members of our administrative staff and a decrease in the amount of fees paid for professional and other services, a decrease in depreciation expenses from office buildings, all partially offset by an increase in the amount of other general and administrative expenses, including social payments, business representative and travel expenses.

Salaries and wages paid to members of our administrative staff decreased by RUB 524 million, or 19.9%, from RUB 2,627 million for the year ended December 31, 2009 to RUB 2,103 million for the year ended December 31, 2010, primarily as a result of a decrease in the headcount of administrative staff and optimization of our administrative structure.

Amount of fees paid for professional and other services decreased by RUB 85 million, or 19.5%, from RUB 436 million for the year ended December 31, 2009 to RUB 351 million for the year ended December 31, 2010, as a result of a decrease in the use of professional services provided by third parties in 2010 compared to 2009.

Amount of depreciation decreased by RUB 43 million, or 13.6%, from RUB 316 million for the year ended December 31, 2009 to RUB 273 million for the year ended December 31, 2010, as a result of additions to our office buildings in 2009. The office buildings were transferred from construction in progress, along with amortizing furniture, which lead to a higher depreciation charge in 2009 compared in 2010.

Other administrative expenses, which include business representative, travel and social expenses, increased by RUB 134 million, or 26.2%, from RUB 511 million for the year ended December 31, 2009 to RUB 645 million for the year ended December 31, 2010, primarily as a result of increased investor relations activities associated with the increased level of business activity in 2010.

### *Impairment losses and reversal of impairment*

Impairment losses and reversal of impairment decreased by RUB 3,565 million, or 76.3%, from RUB 4,671 million for the year ended December 31, 2009 to RUB 1,106 million for the year ended December 31, 2010 primarily due to substantially larger reversals of impairment in 2010 compared to 2009.

Impairment losses and write downs increased by RUB 1,088 million, or 19.7%, from RUB 5,516 million for the year ended December 31, 2009 to RUB 6,604 million for the year ended December 31, 2010, primarily due to a loss of RUB 2,724 million, recognized in 2010. This loss was as a result of the Group’s decision to sell its interest in the Park-City project, and

subsequently the carrying value of the net assets related to the project were reduced to the net selling price. The liabilities related to the project were presented as liabilities related to assets held for sale. The increase in impairment losses and write downs was partially offset by a 70.8% decrease in inventory write down largely because significant write downs to inventory had already been taken in 2009 and 2008.

Reversal of impairment increased by RUB 4,653 million, or 550.7%, from RUB 845 million for the year ended December 31, 2009 to RUB 5,498 million for the year ended December 31, 2010, primarily due to a RUB 3,598 million reversal of impairment losses related to development rights, as a result of an increase in the market value of such rights. We also recognized a RUB 1,708 million reversal of write downs of inventory because of an increase in the market value of our construction projects.

*Other income and expenses, net*

Other income and expenses, net, decreased by RUB 18 million, or 4.6%, from expenses of RUB 391 million for the year ended December 31, 2009 to expenses of RUB 373 million for the year ended December 31, 2010. This decrease resulted primarily from an increase in penalties and fines by RUB 1,953 million or 820.6%, from RUB 238 million for the year ended December 31, 2009 to RUB 2,191 million for the year ended December 31, 2010. Penalties and fines consist of penalties related to our failure to meet obligations with respect to the timing of completions of certain construction projects and late payments under investment contracts, as well as fines related to the breaches of construction requirements under co-investment contracts. The decrease was partially offset by the effect of termination of long-term land lease agreements for land plots in Nizhny Novgorod and Omsk arising from the de-recognition of the accounts payable, which resulted in a gain of RUB 2,032 million.

*Finance income*

Finance income decreased by RUB 446 million, or 57.8 %, from RUB 771 million for the year ended December 31, 2009 to RUB 325 million for the year ended December 31, 2010. This decrease primarily resulted from a partial repayment of debt owed to us by Quinturin, an entity affiliated with Mr. Zhukov, one of our Founding Shareholders, and the corresponding decrease in the interest payable owed to us on the loan. See “*Related Party Transactions.*”

*Finance costs*

Finance costs decreased by RUB 3,871 million, or 39.5 %, from RUB 9,801 million for the year ended December 31, 2009 to RUB 5,930 million for the year ended December 31, 2010. This decrease resulted primarily from decreases in penalties and fines related to loans’ late repayment, foreign exchange losses, provision for doubtful accounts, and the interest expense as well as no impairment losses on financial assets recorded in 2010.

The amounts of expenses comprising the finance costs for the years ended December 31, 2009 and 2010 are presented in the following table:

	<b>For the year ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(restated)*</i>	
	<b>mln RUB</b>	
Interest expense .....	4,614	4,050
Penalties and fines related to loans’ late repayment .....	2,398	1,189
Foreign exchange losses .....	642	96
Impairment losses on financial assets .....	481	-
Provision for doubtful accounts .....	1,666	595
Loss on disposal of available-for-sale financial assets .....	-	-
<b>Finance costs</b> .....	<b>9,801</b>	<b>5,930</b>

\* For a description of the restatements, please see “*Selected Consolidated Financial Information and Other Operating Data — Restatements.*”

Interest expense decreased by RUB 564 million, or 12.2%, from RUB 4,614 million for the year ended December 31, 2009 to RUB 4,050 million for the year ended December 31, 2010 primarily as a result of a decrease in effective interest rate on our debt.

Penalties and fines related to loans' late repayment decreased by RUB 1,209 million, or 50.4%, from RUB 2,398 million for the year ended December 31, 2009 to RUB 1,189 million for the year ended December 31, 2010 primarily as a result of a decrease in the amount of overdue debt in line with our debt restructuring.

Foreign exchange losses decreased by RUB 546 million, or 85.1%, from RUB 642 million for the year ended December 31, 2009 to RUB 96 million for the year ended December 31, 2010 mainly due the repayment during 2010 of an unsecured U.S. dollar-denominated loan, which reduced our U.S. dollar-denominated loans from RUB 13,765 million to RUB 11,207 million, and as a result we suffered smaller losses as the U.S. dollar continued to appreciate against the Rouble in 2010.

We recorded no impairment losses on financial assets for the year ended December 31, 2010. For the year ended December 31, 2009, we recorded impairment losses on financial assets in the amount of RUB 481 million, which, excluding the effect of non-recurring and exceptional items, reflected a change in management estimates in respect of the fair value of financial assets.

Provision for doubtful accounts decreased RUB 1,071 million, or 64.3%, from RUB 1,666 million for the year ended December 31, 2009 to RUB 595 million for the year ended December 31, 2010, which reflected a change in management estimates in respect of the probability of recovery of advances given to (or accounts receivable from) certain suppliers and customers. We have commenced court proceedings against such suppliers and customers to recover the amounts due to us.

In addition to the borrowing costs recognized in our consolidated income statement, borrowing costs of RUB 462 million were capitalized as part of the construction work in progress intended for sale in the year ended December 31, 2010, compared to RUB 630 million capitalized borrowing costs in the year ended December 31, 2009. This decrease is primarily a result of repayment in 2010 of several project financing facilities by us upon completion of the associated developments.

#### *Share of loss of equity accounted investees, net of income tax*

Share of loss of equity accounted investees, net of income tax, increased by RUB 11 million, or 26.8%, from RUB 41 million for the year ended December 31, 2009 to RUB 52 million for the year ended December 31, 2010. The loss in both 2009 and 2010 represent our share of losses generated by special purpose entities developing the Park-City project. As we disposed of our interest in that project in the first half of 2011, we anticipate that these issues will no longer arise.

#### *Income tax benefit/expense*

We recorded income tax expense of RUB 866 million in the year ended December 31, 2009 and income tax benefit of RUB 2,051 million in the year ended December 31, 2010. The change was mainly due to (i) a RUB 2,928 million deferred tax credit recorded in 2010, and (ii) a RUB 1,339 million adjustment to prior year taxable income recognized in 2010 both primarily as a result of the decision of the Group to apply for a deduction from prior years taxable income for expenses previously considered non-deductable (the application was accepted), and (iii) a RUB 1,175 million reversal of tax provisions recognized in previous years.

#### *Discontinued operations, net of tax*

Profit from discontinued operations, net of tax, was zero for the year ended December 31, 2010, compared to RUB 1,193 million for the year ended December 31, 2009. Discontinued operations in 2009 were attributable to mining operations, which were previously included in the industrial segment. On June 26, 2009, we decided to sell our mining operations. In 2009, we recognised a gain on sale of these discontinued operations of RUB 1,313 million, together with a loss of RUB 120 million, net of tax, for the year.

#### *Loss and total comprehensive loss for the year*

As a result of the above, total comprehensive loss decreased by RUB 5,403 million, or 47.0%, from RUB 11,488 million for the year ended December 31, 2009 to RUB 6,085 million for the year ended December 31, 2010.

#### ***Year Ended December 31, 2009 compared to the Year Ended December 31, 2008***

The following table sets forth income statement data, including as a percentage of revenues, for the years ended December 31, 2008 and 2009.



As of January 1, 2009, we applied newly adopted IFRS 8 (Operating Segments). See “— Overview.” Comparative segment information for 2008 in this section has been re-presented in accordance with the new accounting policy.

Because of the divestiture of our non-ferrous mining division in 2009 (See “—Key Factors Affecting Our Results of Operations — Disposals”), the Audited Consolidated Financial Statements for the year ended December 31, 2009 show discontinued operations separately from continuing operations. The Audited Consolidated Financial Statements for the year ended December 31, 2008 have been re-presented to show the discontinued operations separately from continuing operations.

	For the year ended December 31,			
	2008		2009	
	(restated)*		(restated)*	
	mln RUB	%	mln RUB	%
<b>Revenues</b> .....	<b>33,695</b>	<b>100</b>	<b>41,175</b>	<b>100</b>
Cost of sales, including .....	(25,271)	(75.0)	(33,218)	(80.7)
Cost of construction services .....	(16,843)	(50.0)	(24,948)	(60.6)
Effect of revision of social infrastructure costs .....	(548)	(1.6)	-	-
Salaries and wages .....	(3,855)	(11.4)	(2,318)	(5.6)
Overhead expenses .....	(767)	(2.3)	(4,526)	(11.0)
Materials .....	(2,656)	(7.9)	(985)	(2.4)
Depreciation .....	(602)	(1.8)	(441)	(1.1)
<b>Gross profit</b> .....	<b>8,424</b>	<b>25.0</b>	<b>7,957</b>	<b>19.3</b>
Gain / (loss) on disposal of subsidiaries and development rights, net .....	—	—	(1,272)	(3.1)
Distribution expenses .....	(974)	(2.9)	(477)	(1.2)
Administrative expenses .....	(5,540)	(16.4)	(3,890)	(9.4)
Impairment losses and reversal of impairment loss .....	(24,028)	(71.3)	(4,671)	(11.3)
Other income and expenses, net .....	(300)	(0.9)	(391)	(0.9)
Finance income .....	481	1.4	771	1.9
Finance costs .....	(8,379)	(24.9)	(9,801)	(23.8)
Share of loss of equity accounted investees, net of income tax .....	(75)	(0.2)	(41)	(0.1)
<b>Loss before income tax</b> .....	<b>(30,391)</b>	<b>(90.2)</b>	<b>(11,815)</b>	<b>(28.7)</b>
Income tax benefit / (expense) .....	1,343	4.0	(866)	(2.1)
<b>Loss for the year from continuing operations</b> .....	<b>(29,048)</b>	<b>(86.2)</b>	<b>(12,681)</b>	<b>(30.8)</b>
Profit from discontinued operations, net of tax .....	85	0.3	1,193	2.9
<b>Total comprehensive loss for the year</b> .....	<b>(28,963)</b>	<b>(86)</b>	<b>(11,488)</b>	<b>(27.9)</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

#### Revenues

Revenues increased by RUB 7,480 million, or 22.2%, from RUB 33,695 million for the year ended December 31, 2008 to RUB 41,175 million for the year ended December 31, 2009 primarily driven by an increase in revenues from sale of apartments in 2009 compared to 2008.

Revenues	For the year ended December 31,	
	2008	2009
	(restated)*	(restated)*
	mln RUB	
Revenue from sale of apartments .....	23,230	30,740
Revenues from construction contracts .....	5,485	7,164
Revenues from sale of construction materials and other sales .....	4,980	3,271
<b>Total</b> .....	<b>33,695</b>	<b>41,175</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

Revenues from the sale of apartments increased by RUB 7,510 million, or 32.3%, from RUB 23,230 million for the year ended December 31, 2008 to RUB 30,740 million for the year ended December 31, 2009. The increase in revenues was primarily a result of recognition of sales of 492 thousand square meters of apartments in completed buildings accepted by the State Commission in the year ended December 31, 2009, compared to recognition of sales of 378 thousand square meters of apartments in completed buildings accepted by the State Commission in the year ended December 31, 2008. The increase in the amount of recognized sales was primarily a result of the completion of construction of several buildings (including some of the Block Sales of apartments), which was suspended in 2008. Many apartments in such buildings had been pre-sold in prior periods, but revenues from such sales were not recognized until 2009, when the buildings were accepted by the State Commission. See “— *Key Factors Affecting Our Results of Operations — Macroeconomic Factors and Demand for Housing*”.

Towards the end of 2008 and in 2009, we engaged in the Block Sales of apartments to suppliers. The prices per square meter of apartments (real estate units) that were the subject of the Block Sales of apartments to suppliers were up to 10-15% lower than prevailing market prices. The aggregate amount of such Block Sales in 2009 was approximately RUB 10.4 billion. Approximately RUB 7,376 million of the total Block Sales were attributable to apartments in buildings that were accepted by the State Commission and recognized as revenue in the year ended December 31, 2009. Approximately RUB 407 million of the total Block Sales were attributable to apartments in buildings that were accepted by the State Commission and recognized as revenue in the year ended December 31, 2008.

Revenues from construction contracts increased by RUB 1,679 million, or 30.6%, from RUB 5,485 million, the year ended December 31, 2008 to RUB 7,164 million for the year ended December 31, 2009 mainly due to increased levels of construction for third parties in 2009.

Revenues from sale of construction materials and other sales decreased by RUB 1,709 million, or 34.3%, from RUB 4,980 million for the year ended December 31, 2008 to RUB 3,271 million for the year ended December 2009 primarily due to a decrease in sales volume of construction materials as a result of the economic downturn and a corresponding decrease in demand for construction materials.

#### *Cost of sales*

Cost of sales increased by RUB 7,947 million, or 31.4%, from RUB 25,271 million for the year ended December 31, 2008 to RUB 33,218 million for the year ended December 31, 2009. This increase was a result of an increase in recognized sales of apartments in buildings accepted by the State Commission in 2009, which is the point at which we recognize our costs with respect to these properties. See “— *Key Factors Affecting Our Results of Operations — Revenue and Cost Recognition*”. The increase in the cost of sales in 2009 was because of an increase in revenues recognized as discussed above and an increase of the cost of construction services and overhead expenses. The increase was partially offset by a decrease in salaries and wages, cost of materials and depreciation.

Our cost of construction services increased by RUB 8,105 million, or 48.1%, from RUB 16,843 million for the year ended December 31, 2008 to RUB 24,948 million for the year ended December 31, 2009. The increase in the cost of construction services in 2009 was a result of an increase in the volume of apartments in completed buildings accepted by the State Commission in 2009, which resulted in recognition of related costs incurred in prior periods.

We recorded a decrease in the effect of revision of social infrastructure costs from RUB 548 million for the year ended December 31, 2008 to zero for the year ended December 31, 2009 primarily due to a revision of construction costs, including social infrastructure, for certain completed projects. See “— *Key Factors Affecting Our Results of Operations — Effect of revision of social infrastructure costs*”.

Salaries and wages (including social charges) decreased by RUB 1,537 million, or 39.9%, from RUB 3,855 million for the year ended December 31, 2008 to RUB 2,318 million for the year ended December 31, 2009. The decrease in salaries and wages in 2009 was a result of the implementation of our cost saving program in our industrial segment, including the reduction of our employee headcount and salary reductions.

Our overhead expenses increased approximately five fold by RUB 3,759 million from RUB 767 million for the year ended December 31, 2008 to RUB 4,526 million for the year ended December 31, 2009. The significant increase of the overhead expenses (which related primarily to our industrial segment) in 2009, mainly resulted from an increase in the use of external contractors and subcontractors resulting from a growth in construction volume.

The cost of materials decreased by RUB 1,671 million, or 62.9%, from RUB 2,656 million for the year ended December 31, 2008 to RUB 985 million for the year ended December 31, 2009. The decrease in the cost of materials resulted primarily from a significant decrease in prices of construction materials necessary for our industrial segment, an increase in the use of third party services and the decentralization of the raw materials purchasing process.

Depreciation expenses decreased by RUB 161 million, or 26.7%, from RUB 602 million for the year ended December 31, 2008 to RUB 441 million for the year ended December 31, 2009. The decrease in depreciation resulted from the impairment of property, plant and equipment, which reduced the depreciable value of our property, plant and equipment in use.

#### *Gross profit for the year*

Our gross profit decreased by RUB 467 million, or 5.5%, from RUB 8,424 million for the year ended December 31, 2008 to RUB 7,957 million for the year ended December 31, 2009. Gross profit margin calculated as a percentage of revenues decreased from 25.0% for the year ended December 31, 2008 to 19.3% for the year ended December 31, 2009. Our gross profit decreased for the year ended December 31, 2009 primarily as a result of the recognition of revenues and costs related to the Block Sales of apartments to suppliers at a discount of approximately 10-15% to then current market prices as discussed above.

#### *Loss on disposal of subsidiaries and development rights, net*

From February to December 2009, we sold several subsidiaries and a land plot that were not related to our core business operations in order to maximize liquidity and meet our working capital needs during the economic downturn, repay a portion of our indebtedness, reduce our costs and concentrate on our core business activity. We did not dispose of any material subsidiaries and development rights in the year ended December 31, 2008.

For the year ended December 31, 2009, we recognized a loss on disposal of subsidiaries and development rights of RUB 1,272 million. This loss resulted from the following transactions:

- the sale of a 100% interest in Lasteya Art, which held rights to a land plot intended for the development of a high-end residential development located on Afanasevsky Street in downtown Moscow, at a loss of RUB 130 million;
- the sale of an 89% interest in Moreliabay Management Limited, which held right to a land plot intended for non-residential development in the Moscow region (North-West Towers project), at a loss of RUB 1,117 million; and
- the sale of a 100% interest in Avtorita Holdings Ltd., an entity operating corporate aircrafts, at a loss of RUB 216 million.

The loss was partially offset by a gain recognized in connection with the following transactions:

- the sale of a land plot in St. Petersburg, which was accounted for as a development right, at a gain of RUB 109 million; and
- the sale of a 100% interest in Rostovkapstroy, which carried out the development of residential properties in Rostov-on-Don, at a gain of RUB 82 million.

In addition, in August 2009, we sold our non-ferrous mining division at a gain of RUB 1,193 million. Financial result of this transaction is shown separately in the Audited Consolidated Financial Statements, because discontinued operations are presented separately from continuing operations.

For the discussion of these transactions, see “—Key Factors Affecting Our Results of Operations — Disposals”, Notes 6 and 11 to the Audited Consolidated Financial Statements.

#### *Distribution expenses*

Distribution expenses decreased by RUB 497 million, or 51%, from RUB 974 million for the year ended December 31, 2008 to RUB 477 million for the year ended December 31, 2009. This decrease was primarily driven by a decrease in marketing and advertising expenses, which was a result of the implementation of our cost saving program in response to the economic downturn. The decrease was partially offset by an increase in wages and salaries and other distribution expenses.

Wages and salaries in the distribution division increased by RUB 18 million, or 10.8%, from RUB 167 million for the year ended December 31, 2008 to RUB 185 million for the year ended December 31, 2009, as a result of reclassification of a portion of salaries and wages in the amount of RUB 38 million that were accounted for in the cost of sales in 2008, while in 2009 they were accounted for as distribution expenses.

Marketing and advertising expenses decreased by RUB 522 million, or 77.4%, from RUB 674 million for the year ended December 31, 2008 to RUB 152 million for the year ended December 31, 2009, as a result of our shift to less expensive forms of advertising, such as the Internet and cross-street banners, from more expensive television and radio advertisements, and reduced participation in various exhibitions, conferences and other industry events.

Other distribution expenses, including transportation expenses and cost of various auxiliary services provided by third parties, increased by RUB 7 million, or 5.2%, from RUB 133 million for the year ended December 31, 2008 to RUB 140 million for the year ended December 31, 2009, as a result of reclassification of a portion of such costs in the amount of RUB 25 million that were accounted for in the cost of sales in 2008, while in 2009 they were accounted for as distribution expenses.

#### *Administrative expenses*

Administrative expenses decreased by RUB 1,650 million, or 29.8%, from RUB 5,540 million for the year ended December 31, 2008 to RUB 3,890 million for the year ended December 31, 2009. This decrease resulted from the implementation of our cost saving program, which included, *inter alia*, a decrease in the headcount of administrative staff, optimization of our administrative structure, salary reduction, tightened business expense reimbursement policies and disposal of the corporate jet, used for business representative purposes (see “— *Year Ended December 31, 2009 compared to the Year Ended December 31, 2008 — Loss on disposal of subsidiaries and development rights, net*” above).

The decrease was primarily driven by a decrease in salaries and wages paid to members of our administrative staff, decrease in the amount of fees paid for professional and other services and decrease of other general and administrative expenses, including social payments, business representative and travel expenses, which was partially offset by an increase in the amount of depreciation of the office buildings.

Salaries and wages paid to members of our administrative staff decreased by RUB 1,189 million, or 31.2%, from RUB 3,816 million for the year ended December 31, 2008 to RUB 2,627 million for the year ended December 31, 2009, as a result of a decrease in the headcount of our administrative staff and a reduction of salaries.

Amount of fees paid for professional and other services decreased by RUB 138 million, or 24%, from RUB 574 million for the year ended December 31, 2008 to RUB 436 million for the year ended December 31, 2009, as a result of a decreased use of professional services provided by third parties in 2009 compared to 2008. In particular, in 2008, we engaged third party service providers to advise us on issues related to our regional expansion and to upgrade our computer systems.

Amount of depreciation of the office buildings increased by RUB 48 million, or 17.9%, from RUB 268 million for the year ended December 31, 2008 to RUB 316 million for the year ended December 31, 2009, as a result of putting into operation of our new office building.

Other administrative expenses, which include business representative, travel and social expenses, decreased by RUB 371 million, or 42.1%, from RUB 882 million for the year ended December 31, 2008 to RUB 511 million for the year ended December 31, 2009, as a result of implementation of our cost saving program.

#### *Impairment losses and reversal of impairment*

Impairment loss and reversal of impairment in the year ended December 31, 2009 amounted to RUB 4,671 million compared to RUB 24,028 million in the year ended December 31, 2008. Substantially smaller impairment loss and reversal of impairment in 2009 is primarily due to recognition of smaller impairment loss in respect of development rights in the amount of RUB 3,040 million (which was partially offset by a reversal of development rights impairment in the amount of RUB 845 million) and smaller write-down of inventories in the amount of RUB 1,977 million. In 2008, impairment loss and reversal of impairment in respect of development rights amounted to RUB 15,247 million and write-down of inventories to RUB 3,377 million. The impairment loss in respect of development rights and write-down of inventories in 2009 were significantly smaller than in 2008 because of a smaller decrease in estimated recoverable amounts of our development projects and construction in progress, which was a result of the significant impairment of the most valuable development projects in 2008, a stable discount

rate used to calculate the present value of future proceeds from our developments and flat real estate prices in 2009. The reversal in 2009 of the impairment loss recognized in 2008 in respect of our land plot in St. Petersburg is due to the expected sale of the land plot at a price exceeding the carrying amount of the asset.

In addition, in 2009 we recognized an impairment loss in respect of property, plant and equipment in the amount of RUB 499 million and no impairment loss in respect of goodwill. In 2008, we recognized an impairment loss in respect of property, plant and equipment in the amount of RUB 1,793 million and in respect of goodwill of certain acquired subsidiaries engaged in production and construction activity in the amount of RUB 3,611 million. A smaller impairment loss compared to 2008 resulted from a smaller decrease in estimated recoverable amounts of our property, plant and equipment, which reflects revised projections in respect of utilization levels of our manufacturing plants.

#### *Other income and expenses, net*

Other income and expenses, net increased by RUB 91 million, or 30.3%, from RUB 300 million for the year ended December 31, 2008 to RUB 391 million for the year ended December 31, 2009. This increase resulted primarily from an increase in penalties and fines by RUB 132 million or 124.5%, from RUB 106 million for the year ended December 31, 2008 to RUB 238 million for the year ended December 31, 2009. Penalties and fines comprise of penalties related to our failure to meet obligations with respect to the timing of completions of certain construction projects and late payments under investment contracts, as well as fines related to the breaches of regulation on construction under co-investment contracts.

#### *Finance income*

Finance income increased by RUB 290 million, or 60 %, from RUB 481 million for the year ended December 31, 2008 to RUB 771 million for the year ended December 31, 2009. This increase primarily resulted from other financial income received in 2009 in the amount of RUB 371 million related to the write-off of accounts payable following the expiration of the relevant statutory limitation period. The increase was partially offset by a decrease in interest income from loans extended to both related and third parties due to a decrease in the amount of loans outstanding in 2009.

#### *Finance costs*

Finance costs increased by RUB 1,422 million, or 17.0%, from RUB 8,379 million for the year ended December 31, 2008 to RUB 9,801 million for the year ended December 31, 2009. This increase resulted primarily from an increase in provision for doubtful accounts, the imposition of penalties and fines on us for late repayment of our loans in 2009 and an increase in interest expense.

The amounts of expenses comprising the finance costs for the years ended December 31, 2008 and 2009 are presented in the following table:

	<b>For the year ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
	<i>(restated)*</i>	<i>(restated)*</i>
	<b>mln RUB</b>	
Interest expense	2,749	4,614
Penalties and fines related to loans' late repayment .....	-	2,398
Foreign exchange losses .....	2,941	642
Impairment losses on financial assets .....	2,547	481
Provision for doubtful accounts .....	127	1,666
Loss on disposal of available-for-sale financial assets .....	15	-
<b>Finance costs</b> .....	<b>8,379</b>	<b>9,801</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

Interest expense increased primarily as a result of an increase in effective interest rate on our debt.

Penalties and fines related to loans' late repayment were first recorded in 2009 because we were not able to repay a portion of our indebtedness as it became due.

Foreign exchange losses in 2008 and 2009 primarily resulted from an appreciation of the U.S. dollar against the Rouble in 2008 and 2009 and a corresponding revaluation of some of our borrowings that are denominated in U.S. dollars, because these borrowings are revalued in Roubles at the end of each reporting period.

Higher impairment losses on financial assets in 2008 are mainly due to the recognition of impairment loss in the amount of RUB 2,006 million in respect of an unsecured loan issued to a third-party borrower, which was partially secured by a land plot. See “—*Key Factors Affecting Our Results of Operations —Acquisitions —Mayak.*” The impairment loss reflected the difference between the carrying value of the loan and the value of the land plot transferred in repayment of the loan. Excluding the effect of this non-recurring and exceptional item, impairment losses on financial assets in 2009 reflect a change in management estimates in respect of the probability of recovery of advances given to (or accounts receivable from) certain suppliers and customers.

Provision for doubtful accounts increased by more than ten times, which reflected a change in management estimates in respect of the probability of recovery of advances given to (or accounts receivable from) certain suppliers and customers. We have commenced court proceedings against such suppliers and customers to recover the amounts due to us.

In addition to the borrowing costs recognized in our consolidated income statement, borrowing costs of RUB 630 million were capitalized as part of the construction work in progress intended for sale in the year ended December 31, 2009, compared to RUB 1,192 million capitalized borrowing costs in the year ended December 31, 2008. This decrease is primarily a result of repayment in 2009 of several project financing facilities by us upon completion of the associated developments.

#### *Share of loss of equity accounted investees, net of income tax*

Share of loss of equity accounted investees, net of income tax, decreased by RUB 34 million, or 45.3%, from RUB 75 million for the year ended December 31, 2008 to RUB 41 million for the year ended December 31, 2009. The loss in both 2008 and 2009 is primarily related to a loss generated by several special purposes entities developing the Park-City project.

#### *Income tax expense/benefit*

Income tax expense includes expenses relating to profits tax, which consist of our current profits tax and deferred tax liabilities.

Income tax expense increased from a tax benefit of RUB 1,343 million for the year ended December 31, 2008 to an expense of RUB 866 million for the year ended December 31, 2009. The increase reflected a smaller loss before income tax in 2009. The increase includes RUB 366 million in respect of tax provisions accrued within income tax and other taxes during 2009. See “—*Provisions and Contingencies*”.

#### *Discontinued operations, net of tax*

Profit from discontinued operations, net of tax, was RUB 1,193 million for the year ended December 31, 2009 compared to RUB 85 million for the year ended December 31, 2008. Discontinued operations in 2009 were attributable to mining operations, which were previously included in the industrial segment. On June 26, 2009, we decided to sell our mining operations, and as a result re-presented the comparative profit and loss for 2008 accordingly. In 2009, we recognised a gain on sale of these discontinued operations of RUB 1,313 million, together with a loss of RUB 120 million, net of tax for the year.

#### *Total comprehensive loss for the year*

As a result of the above, total comprehensive loss decreased by RUB 17,475 million, or 60.3%, from RUB 28,963 million for the year ended December 31, 2008 to RUB 11,488 million for the year ended December 31, 2009.

## **Liquidity and Capital Resources**

### ***Cash Flows***

A summary of our cash flows is presented in the table below for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(restated)*	(restated)*			
			<b>mln RUB</b>		
Net cash (used in)/from operating activities .....	8,171	1,188	(4,816)	(3,957)	(5,574)
Net cash from/(used in) investing activities.....	(21,903)	(697)	1,434	159	1,365
Net cash from/(used in) financing activities .....	(127)	(227)	4,315	2,348	2,362
Net increase/(decrease) in cash and cash equivalents.....	(13,859)	264	933	(1,450)	(1,847)
Effect of exchange rate fluctuations on cash and cash equivalents .....	(34)	-	-	-	-
Cash and cash equivalents at beginning of year .....	17,046	3,153	3,417	3,417	4,350
<b>Cash and cash equivalents at end of year .....</b>	<b>3,153</b>	<b>3,417</b>	<b>4,350</b>	<b>1,967</b>	<b>2,503</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

We have principally relied on cash provided by operations and bank loans to finance our working capital needs and requirements of our investment program, and we expect that these will continue to be important sources of liquidity in the future. Our cash flows have been significantly affected by the market downturn, as described in greater detail below.

*Six months ended June 30, 2011 compared to the six months ended June 30, 2010*

Net cash from operating activities amounted to a net outflow of RUB 5,574 million for the six months ended June 30, 2011, compared to a net outflow of RUB 3,957 million for the six months ended June 30, 2010. This change was primarily a result of the increased level of construction in the six months ended June 30, 2011.

The most significant changes between the six months ended June 30, 2011 compared to the six months ended June 30, 2010 in the non-cash items applied to adjust the net profit or loss (as applicable) after income tax to derive the operating cash flows before working capital changes were the following:

- a RUB 2,323 million change in reversal of impairment loss/impairment loss on non-current assets and inventory write downs from a RUB 613 million impairment loss in the six months ended June 30, 2010 to a RUB 1,710 million reversal of impairment loss in the six months ended June 30, 2011 primarily due to lower impairment losses recognized in respect of property, plant and equipment, development rights and inventory;
- a RUB 331 million change in income from disposal of a subsidiary from RUB 331 million in the six months ended June 30, 2010 to zero in the six months ended June 30, 2011 as a result of the gain recognized on the disposition of Sturm Properties Limited;
- a smaller interest expense, including penalties payable and reversal of penalties, of RUB 789 million in the six months ended June 30, 2011 compared to a RUB 3,283 million interest expense in the six months ended June 30, 2010. The decrease in interest expense was mainly due to the reversal of a penalty for late repayment in respect of a credit facility provided by Nomos Bank, which was accrued in the six months ended June 30, 2010;
- a RUB 1,366 million change in foreign exchange gain/loss from a RUB 472 million foreign exchange loss in the six months ended June 30, 2010 to a RUB 894 million foreign exchange gain in the six months ended June 30, 2011 due to the effect of the appreciation of the Rouble against the U.S. dollar on our U.S. dollar-denominated borrowings;
- a RUB 543 million change in reversal of impairment/impairment of financial assets from a RUB 528 million impairment of financial assets in the six months ended June 30, 2010 to a RUB 15 million reversal of impairment of financial assets in the six months ended June 30, 2011. This change was mainly due to the inclusion in the provision for doubtful accounts of two loans made by us in connection with the performance of construction services; and
- a RUB 2,344 million change in income tax expense/benefit from an income tax benefit of RUB 1,514 million in the six months ended June 30, 2010 to an income tax expense of RUB 830 million in the six months ended June 30, 2011.

The change was mainly due to a RUB 1,344 million adjustment to prior year taxable income and a deferred tax credit of RUB 965 million recognized in the six months ended June 30, 2010.

The most significant differences between the six months ended June 30, 2011 compared to the six months ended June 30, 2010 in the changes in working capital were the following:

- an increase in inventories in the six months ended June 30, 2011 amounting to RUB 7,737 million compared to an increase in inventories of RUB 2,560 million in the six months ended June 30, 2010. This change resulted primarily from the commencement of construction work on some of our development projects;
- a decrease in trade and other receivables in the six months ended June 30, 2011 of RUB 448 million compared to an increase of RUB 2,644 million in the six months ended June 30, 2010. The decrease in trade and other receivables in the six months ended June 30, 2011 was primarily a result of a completed offset of receivables against accounts payable in respect of projects where we act both as an investor or a co-investor and a general contractor. The increase in the six months ended June 30, 2010 mainly represents an accumulation of receivables to be offset against accounts payable;
- an increase in trade and other payables in the six months ended June 30, 2011 of RUB 3,243 million compared to an increase of RUB 1,375 million in the six months ended June 30, 2010. This change resulted primarily from an increase in advances from customers; and
- a decrease in provision for cost to complete for the six months ended June 30, 2011 of RUB 348 million compared to an increase of RUB 3,677 million in the six months ended June 30, 2010. The decrease in provision for cost to complete in the six months ended June 30, 2011 was primarily a result of the progress of construction work on our development sites and a corresponding decrease in our outstanding obligations in relation to construction of infrastructure facilities and amenities.

Cash flows from investing activities increased from RUB 159 million in the six months ended June 30, 2010 to RUB 1,365 million in the six months ended June 30, 2011. The increase was primarily due to the proceeds received from the sale of the Park City project of RUB 1,721 million and a partial repayment in the amount of RUB 591 million of the loan advanced to Quinturin. See *“Related Party Transactions —Loans and other receivables from related parties.”*

Cash flows from financing activities increased from RUB 2,348 million in the six months ended June 30, 2010 to RUB 2,362 million in the six months ended June 30, 2011. This was mainly a result of an increase in proceeds from borrowings to RUB 13,048 million in the six months ended June 30, 2011 as compared to RUB 7,076 million in the six months ended June 30, 2010. Repayments of borrowings increased to RUB 10,686 million in the six months ended June 30, 2011 as compared to RUB 4,728 million in the six months ended June 30, 2010. Both proceeds from borrowings and repayments of borrowings increased primarily as a result of the refinancing of the Nomos Bank facility in the six months ended June 30, 2011.

*Year ended December 31, 2010 compared to the year ended December 31, 2009*

Net cash from operating activities amounted to a net outflow of RUB 4,816 million for the year ended December 31, 2010, compared to a net inflow of RUB 1,188 million for the year ended December 31, 2009. This change was primarily a result of decreased cash from operating activities in 2010 as a result of lower pre-sales in 2010 due to the economic downturn, which led to lower demand for real estate properties.

The most significant changes between 2010 compared to 2009 in the non-cash items applied to adjust the net loss after income tax to derive the operating cash flows before working capital changes were the following:

- a smaller net impairment loss and reversal of impairment loss, of RUB 1,106 million in 2010 compared to a RUB 4,671 million in 2009 primarily due to substantially larger reversals of impairment in 2010 compared to 2009;
- a gain on termination of long-term leases of RUB 2,032 million in 2010 compared to zero in 2009 as a result of the optimization of our land bank structure in 2010 through a decrease in our participation in certain regional projects to the share that has been already paid for and cancellation of our commitment to make additional payments (see *“Business — Development Projects — Optimization of the Regional Land Bank”*);



- a smaller interest expense, including penalties payable, of RUB 5,239 million in 2010 compared to a RUB 7,012 million interest expense in 2009. The decrease in interest expense was mainly due to a decrease in accrued penalties and fines related to late repayment of loans as a result of the restructuring of our debt;
- a smaller foreign exchange loss of RUB 96 million in 2010 compared to a RUB 642 million foreign exchange loss in 2009. This change was mainly due the repayment during 2010 of an unsecured U.S. dollar-denominated loan;
- a smaller impairment loss on financial assets and provision for doubtful accounts of RUB 595 million in 2010 compared to RUB 2,147 million in 2009. This change was mainly due to a change in management estimates in respect of the fair value of financial asset concerning the probability of recovery of advances given to (or accounts receivable from) certain suppliers and customers; and
- a RUB 2,917 million change in income tax expense/benefit from an income tax expense of RUB 866 million in 2009 to an income tax benefit of RUB 2,051 million in 2010. The change was mainly due to a deferred tax credit recorded in 2010, which was primarily the result of the decision of the Group to apply for a deduction from prior years taxable income for expenses previously considered non deductible, which was granted, and an adjustment to prior year taxable income recognized in 2010 and a reversal of a tax provision recognized, net, in 2010.

The most significant differences between 2010 compared to 2009 in the changes in working capital were the following:

- Increase in inventories in the year ended December 31, 2010 amounted to RUB 5,107 million compared to a decrease in inventories of RUB 6,678 million in the year ended December 31, 2009. The increase in inventories in 2010 primarily resulted from the initiation of construction of new buildings on our development sites, which had not yet been accepted by the State Commission, as we accelerated our development program following the financial crisis. The decrease in 2009 was mainly due to the completion and acceptance of construction in progress by the State Commission, which was not replaced by new construction projects in 2009 as we sought to reduce our investments in new developments and conserve cash;
- An increase in trade and other receivables in the year ended December 31, 2010 of RUB 685 million compared a decrease of RUB 1,519 million in the year ended December 31, 2009. The increase in trade and other receivables in 2010 mainly represents the accumulation of receivables to be offset against accounts payable to our suppliers. The decrease in 2009 was primarily a result of a completed offset of receivables from our suppliers against accounts payable to them;
- An increase in trade and other payables in the year ended December 31, 2010 of RUB 3,076 million compared to a decrease of RUB 9,241 million in the year ended December 31, 2009. The increase in trade and other payables in 2010 resulted primarily from an increase in advances from customers of RUB 3,501 million as customers were more willing to prepay for apartments due to the economic recovery and advances of RUB 1,492 million received for the sale of the development rights in Ochakovskiy ZhBK. The decrease in trade and other payables in 2009 primarily resulted from the completion of construction in progress initiated in prior periods and a decrease in the amount of advances received from customers in 2009; and
- An increase in provision for cost to complete for the year ended December 31, 2010 of RUB 6,096 million compared to an increase of RUB 2,142 million in the year ended December 31, 2009. This change resulted primarily from a revision of certain master planning schemes and related construction budgets for social infrastructure and utilities for four big development projects in the Moscow region in 2010. See “— *Key Factors Affecting Our Results of Operations — Effect of revision of social infrastructure costs*”.

Net cash from investing activities amounted to a net inflow of RUB 1,434 million in the year ended December 31, 2010, compared to a net outflow in the amount of RUB 697 million in the year ended December 31, 2009. The change was primarily due to proceeds received from the sale of development rights, including the receipt of funds from the sale of Ochakovskiy ZhBK in July 2010.

Net cash from financing activities amounted to a net inflow of RUB 4,315 million in the year ended December 31, 2010, compared to a net outflow of RUB 227 million in the year ended December 31, 2009. This was mainly a result of a decrease in repayments of borrowings to RUB 8,122 million in 2010 as compared to RUB 25,202 million in 2009. Repayments of borrowings decreased primarily because of the partial utilization of the Sberbank credit facility provided to us for working capital to launch new development projects and the implementation of the debt restructuring in 2009. In the year ended

December 31, 2010, we also did not record any expenses related to the acquisition of non-controlling interests and transactions with our Founding Shareholders as compared to the expenses of RUB 227 million in the year ended December 31, 2009.

*Year ended December 31, 2009 compared to the year ended December 31, 2008*

Net cash from operating activities decreased by RUB 6,983 million, or 85.5%, to RUB 1,188 million in the year ended December 31, 2009 compared to RUB 8,171 million in the year ended December 31, 2008. The decrease is mainly due to a steep decline in sales of real estate units in our buildings as a result of the deterioration of the real estate market in Russia caused by the economic downturn. Real estate prices also decreased in 2009 compared to 2008 as a result of the economic downturn.

The most significant changes between 2009 compared to 2008 in the non-cash items applied to adjust the net loss after the income tax to derive the operating cash flows before working capital changes were the following:

- a smaller impairment loss of RUB 4,671 million in 2009 compared to a RUB 24,028 million in 2008 due to a decline in the estimated recoverable amounts of our development projects and construction in progress in 2009 and 2008, respectively;
- a larger interest expense, including penalties payable, of RUB 7,012 million in 2009 compared to a RUB 2,749 million interest expense in 2008. The increase in interest expense was due to incurring penalties and fines related to late repayment of loans in 2009 of RUB 2,398 million, compared to zero in 2008;
- a smaller foreign exchange loss of RUB 642 million in 2009 compared to a RUB 2,941 million foreign exchange loss in 2008. This change was mainly due to the effect of the depreciation of the Rouble against the U.S. dollar on the U.S. dollar denominated borrowings; and
- a RUB 2,209 million change in income tax expense/benefit from an income tax benefit of RUB 1,343 in 2008 to an income tax expense of RUB 866 million in 2009. An income tax benefit was reported in 2008 due to the effect of changes in the tax rate.

The most significant differences between 2009 compared to 2008 in the changes in working capital were the following:

- a decrease in inventories in the year ended December 31, 2009 of RUB 6,678 million compared to an increase in inventories of RUB 27,192 million in the year ended December 31, 2008. The decrease in inventories in 2009 primarily resulted from the completion of construction in progress initiated in prior periods. The recognition of sales of real estate units after acceptance by the State Commission of completed buildings led to a corresponding decrease in inventory, including inventory accumulated in 2008 due to the slowdown of construction activity and resulting growth of construction in progress;
- a decrease in trade and other receivables in the year ended December 31, 2009 of RUB 1,519 million compared to RUB 2,254 million in the year ended December 31, 2008. This change resulted from a payment made by the Moscow Government in 2008 for a large number of apartments sold by us;
- a decrease in trade and other payables in the year ended December 31, 2009 of RUB 9,241 million compared to an increase in trade and other payables of RUB 31,179 million in the year ended December 31, 2008. The decrease in trade and other payables in 2009 primarily resulted from the completion of construction in progress initiated in prior periods and a decrease in the amount of advances received from customers in 2009. The increase in trade and other payables in 2008 was due to delays in the transfer of completed apartments to our customers; and
- an increase in provision for cost to complete for the year ended December 31, 2009 of RUB 2,142 million compared to an increase of RUB 3,630 million in the year ended December 31, 2008. This change resulted primarily from an increase in our estimate of the costs expected to be incurred in connection with construction of infrastructure facilities in 2009.

Net cash used in investing activities decreased from RUB 21,903 million in the year ended December 31, 2008 to RUB 697 million in the year ended December 31, 2009. The decrease was primarily due to a temporary suspension of our investment activities in 2009 and the resulting reduction in capital expenditures relating to the acquisition of property, plant and equipment

and intangible assets. The cash flows used by investing activities in 2008 were mainly related to acquisitions of development rights and interests in development projects.

Net cash used in financing activities amounted to RUB 227 million in the year ended December 31, 2009 compared to cash flows used in financing activities in the amount of RUB 127 million in the year ended December 31, 2008. Proceeds from borrowings were RUB 25,197 million and RUB 37,584 million during the years ended December 31, 2009 and 2008, respectively. Repayments of borrowings were RUB 25,202 million and RUB 35,590 million during the years ended December 31, 2009 and 2008, respectively. In 2009, the proceeds from borrowings were used to refinance other indebtedness. In addition, in 2009, we paid RUB 385 million to entities controlled by our Founding Shareholders in exchange for their consent to a pledge of Ordinary Shares owned by them as collateral to secure a bank loan received by us, which was partially offset by the proceeds from the sale of treasury Ordinary Shares for RUB 224 million. In 2008, the proceeds from borrowings were used primarily to refinance other indebtedness. In addition, in 2008, we repurchased Ordinary Shares for RUB 2,428 million in the open market.

### **Liquidity**

Cash and cash equivalents comprise cash balances and cash deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of our cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

As of December 31, 2010 and June 30, 2011, we had cash and cash equivalents in the amount of RUB 4,350 million and RUB 2,503 million, respectively.

	<u>As of December 31, 2010</u>	<u>As of June 30, 2011</u>
	<b>mln RUB</b>	
Current accounts (RUB denominated) .....	4,347	2,500
Current accounts (USD denominated) .....	3	3
Cash and cash equivalents in the balance sheets.....	4,350	2,503
Bank overdrafts.....	-	-
Cash and cash equivalents in the statements of cash flows .....	4,350	2,503

### **Capital Resources**

For the year ended December 31, 2010, our primary sources of funding were cash flows from investing activities in the amount of RUB 1,434 million and cash flows from financing activities in the amount of RUB 4,315 million. For the year ended December 31, 2009, our primary sources of funding were cash flows from operating activities in the amount of RUB 1,188 million. For the year ended December 31, 2008, our primary sources of funding were cash flows from operating activities in the amount of RUB 8,171 million.

For the six months ended June 30, 2011, our primary sources of funding were cash flows from investing activities in the amount of RUB 1,365 million and cash flows from financing activities in the amount of RUB 2,362 million, primarily in the form of loan proceeds in the amount of RUB 13,048 million received under the credit facility agreements with Sberbank, Nomos-Bank, Binbank and Bank Zenit to fund our working capital needs.

### **Advances from customers**

Pre-sales of apartments in a building constitute a primary source of funding for the construction of the building. Upon completion of the initial phase of construction, we aim to finance further construction of our developments primarily with the proceeds from pre-sales of real estate units in such developments. We pre-sell 80-85% of real estate units in our developments before construction is completed and buildings are accepted by the State Commission (except for elite apartment buildings made of poured concrete, where the sales phase usually continues for up to several months after construction has been completed). With a construction cycle typically being 12 to 18 months, this often allows us to receive advances from purchasers approximately from 12 to 18 months before such buildings are accepted by the State Commission. See *“Risk Factors — Risks Relating to Our Business — We are reliant on pre-sales to finance our development projects and our ability to pre-sell apartments may be materially adversely affected by changes in laws regulating residential construction.”*

Generally, high demand for real estate units that we sell increases the length of time between the date at which we receive advances from our customers and the date of completion of the relevant development, while low demand decreases the length of time. In the first half of 2008 and earlier, when demand for real estate units was robust, we commonly began to offer real estate units for sale upon completion of the foundation of the building, which allowed us to receive advances from our apartment purchasers approximately a year before the completion of construction of such apartments. As a result of reduced demand for real property, starting from the second half of 2008, we have only been able to receive advances from our apartment purchasers after we have obtained the construction permit and have completed construction of the foundation and the initial floors of a new building. Decreased time difference between cash collection and completion of construction decreases the aggregate amount of advances from customers that we receive, which increases our working capital needs. In particular, as of June 30, 2011, December 31, 2010, December 31, 2009 and December 31, 2008 the amount of advances from customers was RUB 39,457 million, RUB 29,949 million, RUB 26,448 million and RUB 34,849 million, respectively, which represents an increase of 31.7% for the six months ended June 30, 2011, an increase of 13.2% for the year ended December 31, 2010 and a decrease of 24.1% for the year ended December 31, 2009.

*Current status of our credit facilities.*

The current status of our existing credit facilities with respect to which we have had to deal with defaults since our debt restructuring was completed in February 2011 is described below. See “*Material Contracts*” for a further discussion of our major credit facilities. The debt restructuring completed in February 2011 is described in more detail after the discussion of the current status of our credit facilities.

*Sberbank.* We believe we have dealt adequately with historic defaults under our RUB 16,000 million and RUB 12,750 million secured term credit facilities with Sberbank (the “**Sberbank Credit Facilities**”) by obtaining letters from Sberbank indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt. We failed to maintain the consolidated net debt/EBITDA ratio at the levels required under the Sberbank Credit Facilities in 2009 and 2010 which resulted in an event of default. In June 2011, we obtained letters from Sberbank indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt because of these breaches of financial covenants. In addition, the bankruptcy claim filed against us in September 2011 resulted in a potential event of default under the Sberbank Credit Facilities. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We received a letter from Sberbank on September 20, 2011 indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on any defaults arising from the bankruptcy claim. However, we cannot give any assurance that Sberbank will not change the intentions expressed in any of these letters or would not prevail in court if it brought legal action against us demanding immediate repayment of the debt notwithstanding its letters as these letters are not legally binding in Russia. Given that no payment defaults exist under the Sberbank Credit Facilities, the Company does not believe that early repayment of the loans will be requested by Sberbank. As at June 30, 2011, the part of indebtedness under the Sberbank Credit Facilities scheduled to be payable subsequent to June 30, 2012 was classified as long-term indebtedness.

*VTB Facility.* We believe we have dealt adequately with historic defaults under our RUB 3,056 million secured term credit facility with VTB (the “**VTB Credit Facility**”) by obtaining a letter from VTB indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on past defaults. The VTB Credit Facility contains a cross-default provision entitling the bank to declare indebtedness owed to it immediately due and payable if, inter alia, we have overdue debt exceeding specified thresholds. Our failure to make timely repayments of some of our other credit facilities in 2009 resulted in a breach of this cross default provision. In March 2010, when these breaches of the cross default provisions were no longer continuing we obtained a letter from VTB stating that the bank as of the date of the letter did not intend to accelerate the debt based on past defaults. Since we have not suffered any payment defaults since March 2010, we believe that VTB will not demand immediate repayment of the VTB Credit Facility. In addition, the bankruptcy claim filed against us in September 2011 resulted in an event of default under the VTB Credit Facility. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We received an email from VTB on September 20, 2011 indicating that the bank as of the date of the email had no intent to demand immediate repayment of the debt based on any defaults arising from the bankruptcy claim. However, we cannot give any assurance that VTB will not change the intentions expressed in the letter of March 2010 or the email of September 20, 2011 or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter and/or email as they are not legally binding in Russia. Given that no payment defaults exist under the VTB Credit Facility, the Company does not believe that early repayment of the loan will be requested by VTB. As at June 30, 2011, the indebtedness under the VTB Credit Facility was classified as long-term indebtedness.

*Rosbank Facilities.* We believe we have dealt adequately with historic defaults under our USD 65 million and USD 30 million secured term credit facilities with Rosbank (the “**Rosbank Credit Facilities**”) by curing the relevant defaults and obtaining a letter from Rosbank indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on past defaults. The Rosbank Credit Facilities entitle the lender to accelerate indebtedness owed to it if, inter alia, the total amount of litigation claims against us exceeds certain permitted limits. As of June 30, 2011, we exceeded the permitted limits and, therefore, were as at that date in default under the Rosbank Credit Facilities. Accordingly, as at June 30, 2011, the indebtedness under the Rosbank Credit Facilities was classified as short-term indebtedness. However, this default is no longer continuing as some of the relevant litigations have since been settled. On September 2, 2011, when the breach of the litigation covenant was no longer continuing we obtained a letter from Rosbank indicating that as of the date of the letter the bank had no intent to demand immediate repayment of the debt based on past defaults. However, we cannot give any assurance that Rosbank will not change its intention or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as it is not legally binding in Russia. We believe we have reasonable grounds to argue that no default occurred under the USD 65 million credit facility with Rosbank as a result of the bankruptcy claim filed against us in September 2011. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. To mitigate the risk that Rosbank takes a different position with respect to the interpretation of the relevant provisions in the USD 65 million Rosbank credit facility, we obtained a letter from it indicating that the bank had no intent to demand immediate repayment of the debt based on any potential defaults arising from the bankruptcy claim. However, we cannot give any assurance that Rosbank will not change the intention expressed in the letter of September 21, 2011 or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as this letter is not legally binding in Russia. Given that no payment defaults exist under the Rosbank Credit Facilities, the Company does not believe that early repayment of the loans will be requested by Rosbank.

*Morgan Stanley Facility.* We believe we have adequately dealt with breaches of certain non-payment defaults under our USD 27.5 million secured term credit facility with Morgan Stanley (the “**Morgan Stanley Credit Facility**”) in 2009 and 2010, as well as breaches of certain financial covenants, by obtaining waivers from Morgan Stanley. In August 2010, we received a formal waiver of all events of default caused by such breaches that predated that waiver. However, the waiver predated and therefore did not cover our breach of certain financial covenants with respect to 2010. In addition, our subsequent defaults under the Sberbank Credit Facilities, the Rosbank Credit Facilities and our credit facility with Absolut Bank (which has subsequently been repaid) triggered a cross-default under the Morgan Stanley Credit Facility. On September 16, 2011, we received a waiver of the existing defaults from Morgan Stanley. The waiver will become effective once we countersign it and incur certain expenses. As the waiver was obtained subsequent to June 30, 2011, the indebtedness under the Morgan Stanley Credit Facility was classified as short-term indebtedness in the Unaudited Consolidated Financial Statements. In addition, the bankruptcy claim filed against us in September 2011 constituted an event of default under our credit agreement with Morgan Stanley. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We have not received a waiver for defaults arising from the bankruptcy claim from Morgan Stanley and there is no assurance that we will receive it. Accordingly, Morgan Stanley is entitled to accelerate payment of the Morgan Stanley Credit Facility and foreclose on the assets pledged under it.

*Nomura Facility.* We believe we have adequately dealt with breaches of certain non-payment defaults under our USD 27.5 million secured term credit facility with Nomura (the “**Nomura Credit Facility**”) in 2009 and 2010, as well as breaches of certain financial covenants, by obtaining waivers from Nomura. In August 2010, we received a waiver of all events of default caused by such breaches that predated that waiver. However, the waiver predated and therefore did not cover our breach of certain financial covenants with respect to 2010. In addition, our subsequent defaults under the Sberbank Credit Facilities, the Rosbank Credit Facility and our credit facility with Absolut Bank (which has subsequently been repaid) triggered a cross-default under the Nomura Credit Facility. On September 22, 2011, we received a waiver of the existing defaults from Nomura. The waiver will become effective once we countersign it and incur certain expenses. As the waiver was obtained subsequent to June 30, 2011, the indebtedness under the Nomura Credit Facility was classified as short-term indebtedness in the Unaudited Consolidated Financial Statements. In addition, the bankruptcy claim filed against us in September 2011 constituted an event of default under our credit agreement with Nomura. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We have not received a waiver for defaults arising from the bankruptcy claim from Nomura and there is no assurance that we will receive it. Accordingly, Nomura is entitled to accelerate payment of the Nomura Credit Facility and foreclose on the assets pledged under it.

*Binbank Facilities.* The bankruptcy claim filed against us in September 2011 resulted in an event of default under the RUB 1,900 million and RUB 600 million term credit facilities with Binbank (the “**Binbank Credit Facilities**”). See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We received a letter from Binbank on September 20, 2011 indicating that the bank as of the date of the letter had no intent to

demand immediate repayment of the debt based on any defaults arising from the bankruptcy claim. However, we cannot give any assurance that Binbank will not change the intention expressed in this letter or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as this letter is not legally binding in Russia. Given that no payment defaults exist under the Binbank Credit Facilities, the Company does not believe that early repayment of the loans will be requested by Binbank.

*Garanti Bank Facilities.* The bankruptcy claim filed against us in September 2011 may have resulted in an event of default under the USD 2.7 million, USD 3 million and USD 5.3 million term credit facilities with Garanti Bank (the “**Garanti Bank Credit Facilities**”). See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We believe we have reasonable grounds to argue that no default occurred under the Garanti Bank Credit Facilities as a result of the bankruptcy claim. However, we cannot give any assurance that Garanti Bank would not prevail in court if it took a different position with respect to the interpretation of the relevant provisions in the Garanti Bank Credit Facilities. Given that no payment defaults exist under the Garanti Credit Facilities, the Company does not believe that early repayment of the loans will be requested by Garanti Bank.

*The Bank of Khanty-Mansiysk Facility.* We believe we have reasonable grounds to argue that no default occurred under our RUB 1,200 million term credit facility with the Bank of Khanty-Mansiysk (the “**Bank of Khanty-Mansiysk Facility**”) as a result of the bankruptcy claim filed against us in September 2011. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. To mitigate the risk that the Bank of Khanty-Mansiysk takes a different position with respect to the interpretation of the relevant provisions in the Bank of Khanty-Mansiysk Facility, we obtained a letter from it indicating that the bank had no intent to demand immediate repayment of the debt based on any potential defaults arising from the bankruptcy claim. However, we cannot give any assurance that the Bank of Khanty-Mansiysk will not change the intention expressed in this letter or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as this letter is not legally binding in Russia. Given that no payment defaults exist under the Bank of Khanty-Mansiysk Facility, the Company does not believe that early repayment of the loans will be requested by the Bank of Khanty-Mansiysk.

#### *Debt restructuring completed in February 2011*

In February 2011, we completed the restructuring of our indebtedness which started at the end of 2008 and which involved repayment of overdue debt, extension of maturities of our borrowings and obtaining greater flexibility in anticipation of a recovery in real estate markets.

*Background of the debt restructuring.* In 2007 and the first half of 2008, the significant increase in our equity resulting from the offering of our Ordinary Shares and net profit reported in 2007 provided us with an opportunity to borrow additional funds at attractive terms to accelerate our growth through participation in many development projects throughout Russia. As of June 30, 2008, we had incurred debt financing in the total amount of RUB 37,211 million. As of June 30, 2008, 83.6% of our loans and borrowings (RUB 31,097 million) comprised short-term debt with a final maturity date on or before June 30, 2009. The economic downturn and the related decrease in demand for real estate in Russia in the second half of 2008 and 2009 resulted in a steep decline in the proceeds from pre-sales of apartments in our buildings, which is an important source of liquidity for us. This resulted in a shortfall of funds required to complete construction of these buildings according to our original plans and to make scheduled payments on our indebtedness. As a result of severe liquidity constraints, we failed to make timely repayments of our debt in 2009. The availability of financing for Russian companies was limited and expensive in the second half of 2008 and in 2009 and our leverage and liquidity situation at the time made refinancing or incurring additional debt unfeasible. Our indebtedness therefore needed to be restructured.

During the course of the restructuring, we either refinanced or repaid our existing debt using the proceeds of the Sberbank credit facility secured by the State Guarantees (described below) and cash received from disposal of certain non-core assets.

*Sberbank facility secured by State Guarantees.* In late 2008 and 2009, the Commission for Sustainable Development of the Russian government recognized us as a company of strategic importance to the Russian economy and approved the issuance of State Guarantees from the Russian Federation to secure our debt, which allowed the Company and our consolidated subsidiary PIK-Region to receive two credit lines from Sberbank in the aggregate principal amount of up to RUB 28,750 million (equivalent to USD 921 million at the December 31, 2009 exchange rate). See “— *Major Credit Agreements.*”

The Sberbank credit lines, which were made available to us in December 2009, permitted us to extend the maturity of a significant portion of our debt and provided us with additional liquidity for development of our properties, replacing insufficient inflows from pre-sales of our real estate units in 2008 and 2009.

*Disposal of non-core assets.* In the second half of 2009, we disposed of a number of non-core assets with a view to using the proceeds for repayment of our debt. In particular,

- in August 2009, we sold PIK Nerud, our non-ferrous mining division for RUB 871 million paid in cash and delivery of promissory notes issued by our subsidiary PIK-Region in the amount of USD 35 million. The cash proceeds from the sale were used to repay our outstanding indebtedness;
- in December 2009, we sold our rights to a land plot intended for the development of a high-end residential living complex located in downtown Moscow, in exchange for delivery to us of promissory notes issued by our subsidiary PIK-Region in the amount of RUB 274 million;
- in December 2009, we sold our interest in non-residential development project in the Moscow region (North-West Towers Project) for nominal consideration. The purchaser assumed the debt in the amount of RUB 1,752 million owed by our former subsidiary to the Russian Deposit Insurance Agency as a successor of Sobinbank; and
- in October 2009, we sold land plots in St. Petersburg for a total cash consideration of RUB 2,164 million in a transaction arranged by Promsvyazbank, one of our creditors. The proceeds from the sale were used to satisfy our obligation to repay debt owed to Promsvyazbank.

*Other refinancing of bank debt.* The decrease in the overall level of our debt, availability of the Sberbank credit lines and the State Guarantees granted to us by the Russian Government allowed us to enter into new credit facilities with a number of banks and refinance our overdue debt:

- in December 2009, we entered into a secured term credit facility agreement with VTB for up to RUB 3,056 million that allowed us to refinance all overdue debt owed to VTB; entities affiliated with our major shareholder, the Nafta Moskva Group, agreed to pledge some of their Ordinary Shares in the Company as security for the repayment of the debt by us;
- in December 2009, the Company and our subsidiary Krasniy Vostok entered into credit facility agreements with Rosbank for up to USD 95 million that allowed us to refinance all overdue debt owed to Rosbank; and
- in November 2009, we entered into a secured term credit facility agreement with BinBank for the amount of up to RUB 1,900 million that allowed us to refinance our debt owed to a number of Russian banks under several credit facilities.

In August 2010, we entered into agreements to amend and restate our credit facility with Morgan Stanley. See “*Material Contracts – Major Credit Agreements.*” Pursuant to the restated credit facility, the final maturity date of the loan was extended to 2014 and all defaults that had occurred prior to the date of the restatement were waived. We agreed to capitalize all interest accrued but not paid by the date of the restatement and pay an amendment fee in the amount of 1.5% of the principal amount of the debt owed to Morgan Stanley, including capitalized interest. In 2010, we made a partial prepayment of the debt owed to Morgan Stanley in the amount of USD 17.4 million.

In August 2010, we entered into an agreement to amend and restate our credit facility with Nomura. Pursuant to the restated credit facility, the final maturity date of the debt was extended to 2014 and all defaults that had occurred or arisen prior to the date of the restatement were waived. We agreed to capitalize all interest accrued but not paid by the date of the restatement and pay an amendment fee in the amount of 1.5% of the principal amount of the debt owed to Nomura, including capitalized interest. The final maturity date of the debt was extended to 2014. In 2010, we made a partial prepayment of debt owed to Nomura in the amount of USD 3.1 million from our operating cash flow.

In November 2008, we entered into a credit facility in the amount of USD 262 million with VEB that provided short term bridge financing to Russian borrowers to refinance debt owed to non-Russian financial institutions according to the Federal Law “On Additional Measures of Support of the Finance System of the Russian Federation.” We used the proceeds of this loan to repay indebtedness owed to certain non-Russian banks. The loan was to be repaid by us by November 2009. In November 2009, VEB assigned its rights under the credit agreement to Nomos-Bank. In February 2011, we fully repaid our indebtedness

to Nomos-Bank under the credit agreement indicated above. Our debt to Nomos-Bank was partially repaid through the sale of our interest in the Park-City development project in January 2011. The remaining portion of our debt to Nomos-Bank was repaid in February 2011.

In February 2011, Rucklers Properties Limited provided a loan to the Company in the amount of USD 67 million. The loan was provided to finance our working capital needs and had a final maturity date of February 17, 2012.

On May 17, 2011, the Company entered into a RUB 1,900 million secured term credit facility agreement with Nomos-Bank. The loan was provided to refinance our debt owed to Rucklers Properties Limited. On May 17, 2011, we fully repaid our debt under the loan agreement with Rucklers Properties Limited.

See “*Material Contracts – Major Credit Agreements*” for a further discussion of these borrowings.

*Restructuring of debt evidenced by promissory notes.* In 2008, we issued promissory notes to several financial institutions as another form of short-term borrowing. Under the terms of all these promissory notes, the repayment was due by the end of 2009. In 2009, a number of holders of our promissory notes brought claims against us demanding repayment of debt in the aggregate amount of RUB 490 million evidenced by the promissory notes. All claims of holders of promissory notes were settled and the related repayment dates were extended by one year to February 2011. All of these promissory notes have since been repaid.

#### *Loans and Borrowings*

As of June 30, 2011, we had total loans and borrowings less interest payable of approximately RUB 43,922 million, comprising secured short-term bank loans of approximately RUB 14,010 million, secured long-term bank loans of approximately RUB 28,836 million, unsecured short-term bank loans of approximately RUB 82 million, short-term loans from third parties of approximately RUB 570 million (including overdue amounts of approximately RUB 75 million), long-term loans from third parties of approximately RUB 101 million and short-term loans from related parties of approximately RUB 323 million.

Because of our breach of a number of restrictive covenants (see “— *Debt restructuring completed in February 2011*” above), as of December 31, 2010 and June 30, 2011, several banks were entitled to declare indebtedness owed to them immediately due and payable. As a result, RUB 27,320 million and RUB 4,936 million of our long-term loans and borrowings, respectively, were reclassified as current loans and borrowings to reflect the ability of the lenders to demand immediate repayment.

In June 2011, we obtained letters from Sberbank indicating that the bank had as of the date of the letter no intent to demand immediate repayment of loans of RUB 26,036 million because of the breaches of financial covenants. These loans have been reclassified to long-term loans as of June 30, 2011.

Following the completion of our long-term debt restructuring in February 2011, our debt profile changed significantly.

As of June 30, 2011, our loans and borrowings consisted of the following:

	<u>Currency</u>	<u>Annual interest rate (actual)</u>	<u>Aggregate Principal Amount Outstanding</u>
		<u>mln RUB, except interest rates</u>	
<b>Secured bank loans</b>			
Sberbank .....	RUB	12%	26,036
Nomos-Bank .....	RUB	14%	5,890
VTB.....	RUB	11.6%	3,056
Rosbank .....	USD	10%	2,667
Binbank.....	RUB	14%	2,300
Absolut Bank <sup>(1)</sup> .....	RUB	12%	1,196
Morgan Stanley.....	USD	10%	668
Nomura .....	USD	10%	405
Garanti Bank.....	USD	11%	278
		4% + CBR	
Bank Zenit .....	RUB	refinancing rate	350
Unsecured bank loans .....	USD	15-16%	82
Unsecured loans from third parties .....	RUB/USD	0-18%	671
Unsecured loans from related parties .....	RUB	12%	323



	Currency	Annual interest rate (actual)	Aggregate Principal Amount Outstanding
		mln RUB, except interest rates	
Interest payable	RUB/USD	-	1,110
<b>Total</b>			<b>45,032</b>

<sup>(1)</sup> The outstanding amount has been repaid in September 2011.

#### Repayment schedule of non-current and current loans and borrowings less interest payable as of June 30, 2011

	Overdue	2011	2012	2013	2014	2015	Total
	mln RUB						
<b>Secured bank loans</b>							
Sberbank <sup>(1)</sup>	-	-	9,477	9,477	7,082	-	26,036
Nomos-Bank	-	-	1,800	600	3,490	-	5,890
VTB <sup>(1)</sup>	-	-	3,056	-	-	-	3,056
Rosbank <sup>(2)</sup>	-	2,667	-	-	-	-	2,667
Binbank	-	400	1,900	-	-	-	2,300
Absolut Bank <sup>(3)</sup>	-	1,196	-	-	-	-	1,196
Morgan Stanley	-	668	-	-	-	-	668
Nomura	-	405	-	-	-	-	405
Garanti Bank	-	185	93	-	-	-	278
Bank Zenit	-	-	350	-	-	-	350
Unsecured bank loans	-	82	-	-	-	-	82
Unsecured loans from third parties	75	328	268	-	-	-	671
Unsecured loans from related parties	-	323	-	-	-	-	323
<b>Total</b>	<b>75</b>	<b>6,254</b>	<b>16,944</b>	<b>10,077</b>	<b>10,572</b>	<b>-</b>	<b>43,922</b>

<sup>(1)</sup> This repayment schedule assumes that the outstanding amount under this credit facility will not be accelerated based on historic defaults. See “—Current status of our credit facilities” above.

<sup>(2)</sup> This repayment schedule does not reflect the no-intent letter we have received from Rosbank, as it was obtained subsequent to June 30, 2011. See “—Current status of our credit facilities” above.

<sup>(3)</sup> The outstanding amount has been repaid in September 2011.

#### Repayment schedule of non-current and current loans and borrowings less interest payable as of June 30, 2011 (without the effect of defaults) <sup>(1)</sup>

	Overdue	2011	2012	2013	2014	2015	Total
	mln RUB						
<b>Secured bank loans</b>							
Sberbank <sup>(2)</sup>	-	-	9,477	9,477	7,082	-	26,036
Nomos-Bank	-	-	1,800	600	3,490	-	5,890
VTB <sup>(2)</sup>	-	-	3,056	-	-	-	3,056
Rosbank	-	-	242	970	970	485	2,667
Binbank	-	400	1,900	-	-	-	2,300
Absolut Bank <sup>(3)</sup>	-	-	240	478	478	-	1,196
Morgan Stanley	-	-	445	223	-	-	668
Nomura	-	-	270	135	-	-	405
Garanti Bank	-	185	93	-	-	-	278
Bank Zenit	-	-	350	-	-	-	350
Unsecured bank loans	-	82	-	-	-	-	82
Unsecured loans from third parties	75	328	268	-	-	-	671
Unsecured loans from related parties	-	323	-	-	-	-	323
<b>Total</b>	<b>75</b>	<b>1,318</b>	<b>18,141</b>	<b>11,883</b>	<b>12,020</b>	<b>485</b>	<b>43,922</b>

<sup>(1)</sup> This repayment schedule does not take into account any actual or potential defaults under our credit facilities that existed as of June 30, 2011 and has not been prepared in accordance with IFRS. This repayment schedule also does not reflect any defaults that may have occurred under our credit facilities as a result of the bankruptcy claim filed against us in September 2011. See “—Current status of our credit facilities” and “Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us”.

<sup>(2)</sup> This repayment schedule assumes that the outstanding amount under this credit facility will not be accelerated based on historic defaults. See “—Current status of our credit facilities” above.

<sup>(3)</sup> The outstanding amount has been repaid in September 2011.

As of June 30, 2011, our loans were secured by pledges of property, plant and equipment with a carrying value of RUB 3,630 million; development rights with a carrying value of RUB 1,652 million; residential and commercial property under construction with a total net sellable area of 83 thousand square meters in Moscow and the Moscow region; and shares of the following subsidiaries, which comprise a substantial part of the Group:

Name of the subsidiary	Number of shares	% of share capital
DSK-2 .....	51,950,334	98
DSK-3 .....	1,747,081	81
480 KGI .....	1,556,430	100
KHZ .....	1,454,600	92
160 DSK .....	1,219,628	75
Gazstroy mash .....	387,421	87
PIK-Region .....	170,000	51
Krasniy Vostok .....	37,317	93
KSRZ .....	48,170	100
100 KGI .....	10,016	77
Sroybusinesscenter .....	10,000	100
Podmoskovie 160 DSK .....	5,811	63
Monetchik .....	100	100
NSS .....	-	100
SroyInvest .....	-	100
Status Land .....	-	100
Veistoun .....	-	100

### *Capital Requirements*

We require capital to finance the following:

- changes in working capital, including working capital needs due to additional housing construction;
- repayment of debt;
- general corporate needs; and
- capital expenditures relating to investments in new real estate development projects, including the acquisition of land rights (ownership or leasehold) and interests in existing real estate development projects.

Real estate investment and development is capital intensive, and we expect to have significant ongoing liquidity and capital requirements to maintain current operation levels and a pipeline of projects for future development, which requires continued investment in new properties and development projects in our target market segments.

Cash outflows for acquisition of property, plant and equipment and intangible assets for each of the years ended December 31, 2008, 2009 and 2010 and for the six months ended June 30, 2010 and 2011 amounted to the following:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	<i>(restated)*</i>	<i>(restated)*</i>			
	mln RUB				
Acquisition of property, plant and equipment .....	(3,650)	(267)	(299)	(81)	(181)
Acquisition of development rights and other intangible assets .....	(17,657)	(223)	-	-	(616)
<b>Total .....</b>	<b>(21,307)</b>	<b>(490)</b>	<b>(299)</b>	<b>(81)</b>	<b>(797)</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

Our cash flows utilized by the acquisition of property, plant and equipment and intangible assets, including development rights for the years ended December 31, 2009 and 2010 and for the six months ended June 30, 2011 were significantly lower than capital expenditure for the year ended December 31, 2008, reflecting the condition of the depressed Russian real estate market as a result of the economic downturn and, correspondingly, our revised strategy to discontinue acquisition of development rights in regions outside the Moscow Metropolitan Area and to reduce capital investments. We expect that these types of expenditures for the year ending December 31, 2011 will be very limited and will depend on the availability of our cash flows from our operations. Our investment plan for 2012 will either provide for no acquisitions or will include only a few acquisitions of development rights related to our existing development projects. Should the condition of the Russian real estate market improve significantly, which could provide us with additional market opportunities, our cash requirements relating to potential acquisitions may change.

#### *Repayment of debt*

During the 12 months ending June 30, 2012 RUB 16,020 million of our outstanding indebtedness is expected to fall due. We have performed a worst-case scenario assessment of our capital requirements for the twelve-month period ending June 30, 2012 on the basis of the following assumptions:

- we fail to refinance our existing debt which needs to be repaid during the twelve-month period ending June 30, 2012 and will be required to repay the outstanding loans and the related interest;
- no new credit facilities become available to us; and
- we do not obtain any equity financing.

The analysis showed that the net inflows from operating activities which we expect to receive during the twelve-month period ending June 30, 2012 will not be sufficient to timely repay our loans when they fall due. If the worst-case scenario on which we based our analysis materializes, we would seek to dispose of the projects Mantulinskaya Street 7 (Moscow) and Kommunarka Village (Leninsky District, Moscow region). The combined carrying value of these projects in our Unaudited Consolidated Financial Statements as at June 30, 2011 amounted to RUB 12,700 million. We estimate that in the event of a forced sale we would be able to sell these projects for a consideration of RUB 12.0 billion to RUB 15.0 billion, which represents approximately 80 to 100% of their fair market value as determined in the Valuation Report.

#### **Contractual Obligations and Commercial Commitments**

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. For example, we have entered into a number of co-investment construction contracts, for which payments have not been made in full. In addition, the Group has contractual commitments with municipal authorities to complete the construction of residential buildings where the apartments had been sold to the customers by predecessor construction companies that had not completed construction due to insolvency or other reasons.

The following table sets forth the amounts of commitments under our co-investment and construction services agreements, commitments to acquire property, plant and equipment and commitments to complete constructions as of June 30, 2010 and 2011, and as of December 31, 2008, 2009 and 2010. In 2009, we adopted a more conservative approach to the determination of commitments under our co-investment and construction services agreements. According to the revised approach, we recognize only firm commitments that are granted in exchange of advances received from our customers.

	<b>As of December 31,</b>			<b>As of June 30,</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>(restated)*</i>	<i>(restated)*</i>		
Commitments under our co-investment and construction services agreements <sup>(1)</sup> .....	50,412	56,576	60,118	51,675
Commitments to acquire property, plant and equipment.....	-	-	-	-
<b>Total</b> .....	<b>50,412</b>	<b>56,576</b>	<b>60,118</b>	<b>51,675</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

<sup>(1)</sup> Including the costs to construct apartments or/and social infrastructure for municipal authorities.

***Commitments under co-investment agreements***

We have entered into a number of co-investment contracts under which payments have not been made in full, and contracts to provide construction services. As of June 30, 2011, the amount of future payments under these contracts was RUB 51,675 million. These payments also cover the costs to construct apartments and/or infrastructure for municipal authorities.

***Commitments to acquire property, plant and equipment***

As of June 30, 2011, we had no contractual commitments to acquire property, plant and equipment.

***Commitments to complete constructions***

As of June 30, 2011, we had contractual commitments to municipal authorities to complete the construction of residential buildings as well as related infrastructure facilities and other local amenities. As of June 30, 2011, costs to complete such construction were estimated to be approximately RUB 19,134 million, and such construction will become a part of construction work-in-progress intended for sale.

***Major customers***

In 2010 and 2009 no customer represented more than 10% of our total revenue. In 2008, revenue from one customer, the Moscow Government and entities controlled by it, represented approximately 20% of our total revenue.

**Guarantees**

In May 2009, we provided a guarantee to a bank in relation to the credit facility in the amount of USD 75 million received by a related party participating as an investor in the Park-City development project. The guarantee was granted for no consideration. The purpose of the loan was to finance preliminary design and other works on the development site. We disposed of our interest in the project in January 2011.

As of June 30, 2011, we had not provided any material financial guarantees to entities outside the Group.

## Provisions and Contingencies

We have in the past engaged in certain transactions that might be challenged by the Russian tax authorities as having the additional benefit of lowering our tax obligations. If the Russian tax authorities successfully challenge these transactions, we could be obligated to pay additional taxes, interest and penalties. In connection with these transactions, as of June 30, 2011 we had recognized provisions for tax risks in the aggregate amount of RUB 1,878 million, consisting of RUB 1,799 million in respect of income tax and RUB 79 million in respect of other taxes, including interest and penalties. As of December 31, 2010, our aggregate tax provisions amounted to RUB 1,738 million, of which RUB 1,691 million was in respect of income tax and RUB 47 million in respect of other taxes, including interest and penalties. These tax provisions relate principally to numerous transactions we entered into in connection with the purchase of land from third parties prior to 2007. Alongside these land purchases, which were largely paid for in cash, we sold to the seller of the land promissory notes issued by other third parties. In each of these transactions, the purchase price for the promissory notes remained unpaid; we wrote off the purchase price after three years of those amounts remaining unpaid, as required by Russian accounting standards, which in turn reduced our tax base in the relevant period. We have since ceased to participate in such arrangements. We have determined that it is probable that additional taxes and related penalties and interest, will be due and payable as a result of these arrangements and we have recorded tax provisions in the Audited Consolidated Financial Statements. The provisions that we recorded represent our best estimates of cash outflows for payments of taxes that would be due if the claimed deduction were to be challenged by Russian tax authorities. The provisions are recognised as part of income tax expense or cost of sales and, therefore, decrease our profit (or increase our losses) for the year. We expect to maintain such provisions, and update them as necessary, for three years from the date of the end of the relevant tax period. See *“Risk Factors — Risks Relating to the Russian Federation — Risks Related to the Legal and Regulatory Environment in Russia — We and our subsidiaries are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities”*.

In 2009 and 2010, several companies within the Group were deducting interest accrued on loans provided by their parent companies from their income tax base, which reflects our interpretation of provisions of the Tax Code. Should tax authorities successfully challenge our tax position, we estimate that additional tax charges of RUB 1,547 million may be levied on us. We have not provided any amounts in respect of such obligations in the Audited Consolidated Financial Statements, as we believe that it is possible, but not probable, that we will be required to settle such obligations.

In addition, we have entered into transactions with various suppliers in which we did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. Though the management of these entities is primarily responsible for the correctness and timeliness of their tax payments, were the tax compliance of these entities to be challenged by the tax authorities as not being in accordance with applicable tax legislation we may be subject to additional tax liabilities, including interest and penalties. While we believe that it is not practicable to estimate the financial effect of potential tax liabilities that could be ultimately imposed on us due to transactions with suppliers, were such liabilities to be imposed, the amounts involved, including penalties and interest, could be material. We have not provided any amounts in respect of such obligations in the Audited Consolidated Financial Statements, as we believe that it is possible, but not probable, that we will be required to settle such obligations.

We are subject to numerous claims and legal proceedings related to sale and service contracts. The total amount of these claims was RUB 2,765 million and RUB 2,050 million, as of June 30, 2011 and December 31, 2010, respectively. These claims have been fully provided for as of June 30, 2011. Management does not believe that the ultimate resolution of such matters will have a material adverse effect on our business, financial condition and results of operations because they are included in the balance of accounts payable at the relevant period ends. See *“Business – Legal Matters.”*

See also *“Risk Factors — Risks Relating to the Russian Federation — Risks Related to the Legal and Regulatory Environment in Russia — The Russian tax system imposes substantial burdens on us and is subject to frequent change and significant uncertainty”*, *“— Risks Relating to the Russian Federation — Risks Related to the Legal and Regulatory Environment in Russia — We and our subsidiaries are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities”* and *“— We may be deemed to receive unjustified tax benefits.”*

## Qualitative Disclosures about Market Risks

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We did not hold or issue derivative or other financial instruments for trading purposes as of June 30, 2011.

### ***Currency Risk***

We are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Rouble. The currency in which these transactions are denominated primarily is the U.S. dollar.

As of June 30, 2011, RUB 4,158 million of the principal amount of our borrowings were denominated in U.S. dollars and RUB 39,764 million of the principal amount of our borrowings were denominated in Roubles. Interest on the borrowings is denominated in currencies that often match the cash flows generated by our underlying operations, which provides an economic hedge and no derivatives are entered into.

### ***Interest Rate Risk***

As of June 30, 2011, RUB 43,572 million of the principal amount of our borrowings carried a fixed interest rate and RUB 350 million carried a variable interest rate. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). We do not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

### ***Credit Risk***

Generally, we do not require collateral from our customers in respect of accounts receivable or other financial assets. Credit evaluations are performed on all customers (other than related parties) requiring credit over a certain amount.

As of June 30, 2011, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### **Operating Segments**

As of January 1, 2009, as required by IFRS, we applied newly adopted IFRS 8 (Operating Segments). As required by the standard, we determine and present our operating segments consistent with how we manage and measure our performance internally based on the information that is internally provided to our chief executive officer, who is our chief operating decision maker. We have revised the composition of our reportable segments since January 1, 2010, as shown in the Audited Consolidated Financial Statements for the year ended December 31, 2010 (with the comparative segment information for 2008 and 2009 also re-presented) and Unaudited Consolidated Financial Statements for the six months ended June 30, 2010 and 2011, to reflect the changes in our internal organizational structure. We currently divide our core activities among the following operating segments: (1) the real estate development segment; (2) the construction segment; (3) the industrial segment; and (4) the segment encompassing other operations.

Adoption of the new standard for determining and presenting operating segments has not had any impact on our financial position or performance. However, we are required to disclose segment information based on the internal reports regularly reviewed by our management. The approach to the recognition of certain non-cash items that we have adopted for our internal reports is different from IFRS. As a result, we determine and present results of our operating segments differently in our segment reporting and for our consolidated income statement purposes. See “— *Eliminations*” for a quantitative analysis of this difference and a reconciliation of information presented in our segment reporting and consolidated income statements.

### ***Presentation of Operating Segments***

The following tables set forth our revenues and operating profit (loss) by segment for the years ended December 31, 2008, 2009 and 2010 and for the six months ended June 30, 2010 and 2011.

	<b>For the year ended December 31,</b>			<b>For the six months ended</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
	<i>(restated)*</i>	<i>(restated)*</i>			
			<b>mln RUB</b>		
<b>External revenues</b>					
Real estate development .....	22,905	30,684	26,334	9,700	17,323

Construction segment .....	5,345	6,925	7,411	2,800	2,027
Industrial segment.....	1,298	2,130	1,581	605	947
Other .....	4,866	2,163	2,610	1,280	1,456
<b>Total .....</b>	<b>34,414</b>	<b>41,902</b>	<b>37,936</b>	<b>14,385</b>	<b>21,753</b>
<b>Inter-segment revenue</b>					
Real estate development.....	-	-	-	-	-
Construction segment .....	22,635	11,751	16,191	7,942	7,651
Industrial segment.....	2,581	1,041	2,023	1,179	1,155
Other .....	11,635	2,677	2,022	805	944
<b>Total .....</b>	<b>36,851</b>	<b>15,469</b>	<b>20,236</b>	<b>9,926</b>	<b>9,750</b>
<b>Total revenue for reportable segments</b>					
Real estate development.....	22,905	30,684	26,334	9,700	17,323
Construction segment.....	27,980	18,676	23,602	10,742	9,678
Industrial segment .....	3,879	3,171	3,604	1,784	2,102
Other .....	16,501	4,840	4,632	2,085	2,400
<b>Total .....</b>	<b>71,265</b>	<b>57,371</b>	<b>58,172</b>	<b>24,311</b>	<b>31,503</b>
<b>Interest income</b>					
Real estate development.....	1,341	1,355	614	253	174
Construction segment.....	1	-	1	1	-
Industrial segment .....	-	8	-	1	-
Other .....	26	60	8	1	-
<b>Total .....</b>	<b>1,368</b>	<b>1,423</b>	<b>623</b>	<b>256</b>	<b>175</b>
<b>Interest expense</b>					
Real estate development.....	(3,399)	(5,645)	(3,981)	(2,364)	(2,283)
Construction segment .....	(107)	(97)	(56)	(27)	(21)
Industrial segment .....	(11)	(41)	-	-	-
Other .....	(64)	(203)	(131)	(47)	(86)
<b>Total .....</b>	<b>(3,581)</b>	<b>(5,986)</b>	<b>(4,168)</b>	<b>(2,438)</b>	<b>(2,390)</b>
<b>Depreciation and amortization</b>					
Real estate development .....	(83)	(88)	(346)	(246)	(19)
Construction segment .....	(184)	(191)	(177)	(87)	(88)
Industrial segment.....	(151)	(155)	(107)	(57)	(76)
Other.....	(142)	(139)	(137)	(63)	(119)
<b>Total .....</b>	<b>(560)</b>	<b>(573)</b>	<b>(767)</b>	<b>(453)</b>	<b>(302)</b>
<b>Reportable segment profit/(loss) before incoming tax</b>					
Real estate development .....	(1,645)	2,810	(7,683)	(2,156)	3,273
Construction segment .....	(142)	193	825	(142)	(19)
Industrial segment.....	(136)	(395)	(287)	(163)	(132)
Other.....	(601)	(551)	293	33	(51)
<b>Total .....</b>	<b>(2,524)</b>	<b>2,057</b>	<b>(6,852)</b>	<b>(2,428)</b>	<b>3,071</b>

\* For a description of the restatements, please see "Selected Consolidated Financial Information and Other Operating Data — Restatements."

<sup>(1)</sup> Ratio of gross profit of each operating segment and our net operating profit for the period is not provided, since gross profit of each segment is not adjusted for inter-segment profits and therefore is not comparable to net operating profit after necessary eliminations.

### Real Estate Development

The activities of this segment primarily relate to the implementation of developments planned and undertaken by us, including the identification of development opportunities, performance of feasibility studies, obtaining development rights from the relevant municipal and regional authorities, managing the design process, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing our real estate projects to potential buyers. Revenues of this segment primarily consist of revenues generated from the sale of apartments in the properties that we develop. A substantial proportion of the construction services contracted by this segment is procured from our construction segment at prices that allow our subsidiaries in the construction segment to maintain constant level of profit from inter-segment sales.

Our real estate development activities in Moscow are carried out by PIK Group. Our principal consolidated subsidiary that carries out real estate development activities in the Moscow region is *PIK-Region*, a wholly-owned subsidiary of the Company. Several wholly-owned subsidiaries of the Company carry out real estate development activities in other regions: *PIK-Verhnaya Volga* in the Yaroslavl region; *PIK Kama* in the Perm region; *PIK Kuban* in the Krasnodar region; *PIK Zapad* in the Kaluga region; and *PIK Zapadnaya Sibir'* in the Omsk region.

In addition, we commonly acquire development rights through acquisitions of shares in subsidiaries that have an ownership title or long-term lease rights to target properties. Such subsidiaries, including several subsidiaries incorporated in jurisdictions outside of Russia, such as Viniso Investments Limited, which was established by us and GIC Real Estate as a joint investment vehicle, do not have any other significant assets, liabilities, revenues and profits or losses.

### *Construction*

The activities of this segment primarily relate to contracting activities, the construction of “shell and core” concrete panel housing and the production and assembly of prefabricated panel residential buildings. This segment provides such services to our real estate development segment as well as to third parties, including the Russian Government and the Moscow Government. Most of our inter-segment sales within the Group and eliminations, noted in the Consolidated Financial Statements, are attributable to services provided by this segment. Prices charged by our construction segment to our other segments are set at the level that allows our subsidiaries in the construction segment to maintain constant level of profit from inter-segment sales.

Our principal consolidated subsidiaries in the construction segment are as follows:

- *DSK-2*. We hold a 98% interest in DSK-2, which operates a concrete panel manufacturing plant and carries out the assembly of prefabricated residential buildings, including buildings of KOPE series. The remaining 2% interest in DSK-2 is held by a large and diverse group of individuals, who acquired their shares during the privatization process in the 1990s.
- *DSK-3*. We hold an 87% interest in DSK-3, which operates a concrete panel manufacturing plant and carries out the assembly of residential buildings, including buildings of P3M series. The remaining 13% interest in DSK-3 is held by a large and diverse group of individuals, who acquired their shares during the privatization process in the 1990s.
- *MFS-PIK*. We hold a 100% interest in MFS-PIK, which performs general contractor functions, carries out groundwork and foundation construction for panel housing and the construction of poured concrete buildings in the Moscow Metropolitan Area.

The activities of this segment primarily relate to production, sale and delivery of construction materials, including prefabricated reinforced concrete panels and window frames. Construction materials produced by our industrial segment are utilized by our real estate development segment and are also sold to third parties. Prices charged by our industrial segment to our other segments are set at the level that allows our subsidiaries in the industrial segment to maintain constant level of profit from inter-segment sales.

Our principal consolidated subsidiaries in the industrial segment include DSK-2 and DSK-3, which are also our principal subsidiaries in the construction segment, as well as the following entities:

- *100 KGI*. We hold 92% of the outstanding and 77% of the voting shares in 100 KGI, which operates a concrete panel manufacturing plant and carries out the assembly of residential buildings, including buildings of Series 111. The remaining 8% interest in 100 KGI is held by a large and diverse group of individuals, who acquired their shares during the privatization process in the 1990s.
- *480 KGI*. We hold a 100% interest in 480 KGI, which operates a concrete panel manufacturing plant and carries out the assembly of residential buildings, including buildings of Series 111M and individual prefabricated concrete housing, in the Tula region.
- *NSS*. We hold a 100% interest in NSS, which manufactures concrete, reinforced concrete elements and panels, other construction materials and, based on the modern production technology, precast framed construction elements, in the Kaluga region.



- *PIK Profile*. We hold a 100% interest in PIK Profile, which produces windows and doors for installation at our buildings.
- *PIK Technology*. We hold a 51% interest in PIK Technology, which produces aluminum facades for installation at our buildings. The remaining 49% interest in PIK Technology is held by a limited number of individual shareholders.
- *PIK Podyom*. We hold a 70% interest in PIK Podyom, which assembles elevators for installation at our buildings. The remaining 30% interest in PIK Podyom is held by a limited number of individual shareholders.

#### Other

The other operations segment encompasses activities related to servicing and maintenance of residential buildings and certain non-residential premises, including shopping centers, underground garages and parking lots, provision of the transportation services and other activities. We provide maintenance services to many of our own developments and also to housing complexes constructed by other developers.

Our principal consolidated subsidiary in this segment is *PIK Comfort*, in which we hold a 100% interest.

#### Geographical Information

Each of our operating segments is managed from Russia, but operates in three principal geographical areas: Moscow, the Moscow region and the other Russian regions, principally being Rostov-on-Don, Nizhniy Novgorod, Yaroslavl, Perm, Kaluga, Kaliningrad, Izhevsk, Novorossiysk, Omsk and St. Petersburg.

We allocate revenues to a particular geographical region based on the geographical location of development sites.

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	(restated)*	(restated)*			
	mln RUB				
<b>External Revenues</b>					
Moscow .....	15,721	21,940	17,835	7,567	11,188
The Moscow region.....	14,722	14,354	16,328	5,862	8,822
Other regions .....	3,971	5,608	3,773	956	1,743
<b>Total</b> .....	<b>34,414</b>	<b>41,902</b>	<b>37,936</b>	<b>14,385</b>	<b>21,753</b>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

#### Eliminations

##### Revenues

Revenues of our operating segments are presented before elimination of inter-segment revenue, revenue allocated to operations of our non-ferrous mining division that were later discontinued (see “—Key Factors Affecting Our Results of Operations — Disposals”) and the effect of immaterial differences in recognition of revenues from construction services provided to the federal or regional governments between the IFRS and our internal practices used to manage and measure our performance internally. Revenues not included in reportable segments represent revenues of subsidiaries, which are not included in financial plans of either of the segments.

For the six months ended June 30, 2011, most of our inter-segment sales within the Group and eliminations of inter-segment revenue are attributable to construction services provided by our construction segment to our real estate development segment. In 2008, 2009 and 2010, most of our inter-segment sales within the Group and eliminations of inter-segment revenue are attributable to construction services provided by our industrial segment to our real estate development segment.

The reconciliation of revenue by operating segment and our consolidated revenue is presented in the following table:

	<b>For the year ended December 31,</b>			<b>For the six months ended</b>	
	<b>2008</b>			<b>June 30,</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
	<i>(restated)*</i>	<i>(restated)*</i>			
			<b>mln RUB</b>		
<b>Total revenue for reportable segments</b> .....	71,265	57,371	58,172	24,311	31,503
Revenue of entities not included in reportable segments .....	481	158	738	25	59
<b>Eliminations</b>					
Inter-segment revenue .....	(36,851)	(15,470)	(20,236)	(9,926)	(9,750)
Discontinued operations .....	(1,940)	(825)	-	-	-
Other eliminations .....	740	(59)	(584)	716	982
Total eliminations .....	<u>(38,051)</u>	<u>(16,354)</u>	<u>(20,820)</u>	<u>(9,210)</u>	<u>(8,768)</u>
<b>Consolidated revenue</b> .....	<u><b>33,695</b></u>	<u><b>41,175</b></u>	<u><b>38,090</b></u>	<u><b>15,126</b></u>	<u><b>22,794</b></u>

\* For a description of the restatements, please see “Selected Consolidated Financial Information and Other Operating Data — Restatements.”

### Profits and Losses

Segment profits and losses are presented before elimination of inter-segment profits (losses) and profits allocated to operations of our non-ferrous mining division that were later discontinued (see “—Key Factors Affecting Our Results of Operations — Disposals” above). Certain expenses (losses) that cannot be allocated to a particular operating segment, such as impairment losses, including impairment of financial assets, provision for doubtful accounts, financial penalties and fines, gain resulting from termination of long-term leases and certain non-cash items are not included into profits (losses) of our operating segments, consistent with how we measure performance of our operating segments internally and with what is reflected in our management accounts. Timing differences relating to recognition of costs reflect differences in recognition of certain historical construction costs as a result of ambiguity of certain contractual provisions, which may be subject to multiple interpretations.

The reconciliation of segment profit and loss and our consolidated loss from continuing operations is presented in the following table:

	<b>For the year ended December 31,</b>			<b>For the six months ended</b>	
	<b>2008</b>			<b>June 30,</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
	<i>(restated)*</i>	<i>(restated)*</i>			
			<b>mln RUB</b>		
<b>Segment profit/(loss) before tax</b> .....	<b>(2,524)</b>	<b>2,057</b>	<b>(6,852)</b>	<b>(2,428)</b>	<b>3,071</b>
<b>Eliminations and unallocated expenses</b>					
Elimination of inter-segment profits .....	221	(20)	-	-	-
Elimination of discontinued operations and effect of reclassification to assets held for sale .....	(1,749)	(925)	-	-	-
Long-term lease agreements termination .....	-	-	2,032	857	-
Impairment of property, plant and equipment, intangible assets, inventories.....	(24,028)	(4,671)	(1,106)	(613)	1,710
Timing differences relating to recognition of costs.....	621	(4,184)	314	(3,193)	(1,535)
Impairment losses on financial assets .....	(2,547)	(481)	-	-	-
Provision for doubtful accounts .....	(127)	(1,666)	(595)	(528)	779
Difference in accruals of penalties and fines .....	-	(2,021)	(1,854)	(919)	76
Other expenses.....	(258)	96	(75)	139	(85)
Total eliminations and unallocated expenses .....	<u>(27,867)</u>	<u>(13,872)</u>	<u>(1,284)</u>	<u>(4,257)</u>	<u>945</u>
<b>Consolidated loss from continuing operations before income tax</b> .....	<u><b>(30,391)</b></u>	<u><b>(11,815)</b></u>	<u><b>(8,136)</b></u>	<u><b>(6,685)</b></u>	<u><b>4,016</b></u>

\* For a description of the restatements, please see “*Selected Consolidated Financial Information and Other Operating Data — Restatements.*”

## **Significant Accounting Policies**

Significant accounting policies are those policies that require the application of our management’s most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Significant accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most significant accounting policies are those described below, which have been consistently applied in the preparation of the Audited Consolidated Financial Statements.

### ***Goodwill relating to the acquisition of subsidiaries***

As part of our transition to IFRS, we elected to restate only those business combinations that occurred on or after January 1, 2004. In respect of acquisitions prior to January 1, 2004, goodwill therefore represents the difference between the Company’s interest in a subsidiary’s net identifiable assets on the date of transition and the cost of acquisition of that interest. For acquisitions on or after January 1, 2004, goodwill represents the excess of the cost of the acquisition over our interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the income statement.

### ***Development rights***

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognized in the income statement as an expense as incurred. Expenditures to obtain development rights, necessary to start the construction activities, are recognized in intangible assets if the projects are technically and commercially feasible and we have sufficient resources to accomplish the development of the projects. The cost of development rights includes the cost of obtaining the right to lease the land plot and the cost of obtaining the registered permit to construct a specific property.

Capitalized development rights recognized 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 and are included in inventories.

When we do not act as a developer, but participate in projects in the capacity of an investor or co-investor, the cost of development rights contributed to such projects is recognized within inventories.

### ***Inventories***

Inventories include construction work in progress when we act in the capacity of a developer and the real estate is intended for sale, prepayments made under investment and co-investment agreements for apartments intended for sale, other work in progress, raw materials and finished goods. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs. These costs are allocated to completed individual apartments on a prorata basis relative to their size.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project, including finance costs. Where real estate property is not being actively developed, net rental and finance costs are reflected in the income statement.

We enter into investment or co-investment agreements to develop residential buildings with local authorities. Such investment contracts may require that we:

- for no consideration deliver certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc.;

- construct certain infrastructure facilities in exchange of the ability to develop the properties, e.g., electricity, sewage systems, roads;
- construct certain properties where the expected compensation from the buyers will not reimburse us for the costs to be incurred, e.g., certain parking spaces;
- enter into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by an unrelated developer to the general public; however, the construction was subsequently stopped due to insolvency of such unrelated developer or other similar reasons.

When such contracts are negotiated with the local authorities as part of acquisition of the development rights, and they cannot be assessed as onerous the costs to complete the construction are included in the total costs of construction of properties which these development rights relate to.

The cost of inventories, other than construction in progress intended for sale and prepayments for real estate properties intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring and bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Advances made under terms of co-investment contracts represent payments made by or assets transferred from our Group in our capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

Our normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realized within twelve months after the balance sheet date.

### ***Impairment***

#### *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to us on terms that we would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

We consider evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment we use historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for our management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the income statement and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed, which is reflected in the income statement.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to the income statement. The

cumulative loss that is removed from other comprehensive income and recognized in the income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

Our corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

#### ***Provisions***

##### *Provision for cost to complete*

Estimated costs to complete represent our estimate of future costs which are expected to be incurred in relation to construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate, which we are obligated to build as part of our arrangements with municipal authorities.

These estimates are particularly sensitive to changes in the city development regulations, which may trigger amendments to investment contracts with us, cause changes in prices for construction material and labor and affect our ability to sell such assets at expected prices.

### *Tax provisions*

We provide for tax risks including interest and penalties when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognized as part of income tax expense or cost of sales.

### *Construction obligations (Onerous Contracts)*

A provision for onerous contracts is recognized when the expected benefits to be derived by us from a contract are lower than the unavoidable cost of meeting our obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, we recognize any impairment loss on the assets associated with that contract.

In some cases we enter into investment or co-investment agreements to develop residential properties where a certain number of real estate units will be allocated to the local authorities upon completion of construction, and we may agree to construct certain infrastructure facilities for no consideration (in exchange for the right to develop the property). In other cases we enter into agreements with local authorities to complete the construction of certain residential properties where the apartments had been sold by an unrelated developer to the general public; but construction was suspended due to the insolvency of such unrelated developer or other similar reason.

When such agreements cannot be directly attributed to any of our projects and the agreements are assessed as onerous, a provision is recognized in the Audited Consolidated Financial Statements when entering into the agreement to complete the construction. The provision is estimated based on the present value of estimated unavoidable net costs to complete the construction.

### *Other provisions*

Other provisions are recognized if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### *Deferred tax*

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes imposed by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **New Accounting Pronouncements**

A number of new accounting standards, amendments to existing standards and interpretations were not effective as of December 31, 2010 and, as a result, have not been applied in preparing the Audited Consolidated Financial Statements for the year ended December 31, 2010. We believe that none of these pronouncements will potentially have a material impact on the Group's operations. We plan to adopt such pronouncements when they become effective.

## INDUSTRY

Set out below is a discussion of the macroeconomic environment in Russia and the industry conditions in each of the markets in which we operate. All data referenced below has been sourced from publicly available information. While we have accurately extracted this data, it has not been independently verified by the Company.

### Macroeconomic and Demographic Overview

Russia's economy is heavily dependent on oil prices. According to British Petroleum and Rosstat, Russia accounted for approximately 13% of world's crude oil exports and 20% of world's natural gas exports in 2010. As of January 2010, the Russian national oil and gas sector accounted for approximately 20% of total Russian GDP, according to Russian Government officials. This fact makes the Russian economy particularly vulnerable to fluctuations in international prices of hydrocarbons. In the second half of 2008, the prices of oil and gas decreased significantly as a result of the economic downturn. Most of Russia's industries, including the real estate sector, were negatively affected, directly or indirectly, by the economic downturn in general and by the decline in oil and gas prices, in particular. Prior to this, during the period since 2000, the Russian economy had experienced solid economic growth, with real GDP annual growth rates ranging from 4.7% to 10.0%, according to Rosstat. Apart from high oil prices, economic growth in Russia between 2000 and 2008 was stimulated by inflows of foreign investment, including both direct investments and foreign corporate loans. The Russian housing demand was also driven by rapid development of mortgage lending.

However, in 2009, real GDP in Russia decreased by 7.8% (according to Rosstat), primarily as a result of the economic downturn. According to the CBR, the Rouble lost more than 30% of its value against the U.S. dollar between August 30, 2008 and February 19, 2009. Further unemployment levels grew significantly during the recent economic downturn, particularly in cities dependent on a single employer.

The following table sets out key economic indicators for Russia for the periods indicated.

	As of and for the year ended December 31,				
	2006	2007	2008	2009	2010
Real GDP growth, year-on-year <sup>(1)</sup> .....	8.2	8.5	5.2	(7.8)	4.0
Real disposable income growth, year-on-year <sup>(2)</sup> .....	13.5	12.1	2.3	2.0	4.2
Consumer price inflation, Dec/Dec <sup>(1)</sup> .....	9.0	11.9	13.3	8.8	8.8
Fixed investment growth, year-on-year, % <sup>(2)</sup> .....	16.7	22.7	9.9	(15.7)	6.0
Average unemployment rate <sup>(1)</sup> .....	7.2%	6.1%	6.3%	8.4%	7.5%
Growth of non-financial sector lending, year-on-year <sup>(2),(6)</sup> .....	47.6%	52.8%	34.8%	(2.4%)	13.1%
Average price of URALS oil, USD/barrel <sup>(3)</sup> .....	60.9	69.5	93.9	60.7	78.2
Net capital inflow, USD billion <sup>(2)</sup> .....	41.4	81.7	(133.7)	(56.1)	(34.0)
RUB/USD exchange rate, period end <sup>(2)</sup> .....	26.33	24.55	29.38	30.24	30.48
RUB/USD exchange rate, period average <sup>(4)</sup> .....	27.19	25.58	24.86	31.72	30.37
Federal budget balance (% of GDP) <sup>(5)</sup> .....	7.4	5.4	4.1	(5.9)	(4.0)

(1) Source: Rosstat.

(2) Source: the CBR.

(3) Source: the CBR.

(4) Source: the CBR. The average rates are calculated as the average of the daily exchange rates on each business day (Daily exchange rates are announced by the CBR for each such business day) and on each non-business day (equal to the exchange rate on the previous business day).

(5) Source: Economist Intelligence Unit.

(6) Calculated using figures as of the end of the respective periods.

In 2009, oil prices began to rise again, and the Russian economy, along with the world economy, started to recover in the third quarter of 2009. In 2010, the Russian economy experienced growth of 4.0% in real GDP according to Rosstat.

The following table sets forth certain quarterly macroeconomic indicators for the periods indicated:

	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011
Real GDP growth, year-on-year <sup>(1)</sup> .....	9.2	7.9	6.4	(1.3)	(9.2)	(11.2)	(8.6)	(2.6)	3.5	5.0	3.1	4.5	4.1	3.4
Real disposable income growth, year-on-year <sup>(1)</sup> .....	7.8	6.1	4.9	(6.3)	0.7	2.9	(3.7)	8.0	7.3	3.7	4.5	2.1	(0.2)	(2.5)
Consumer price inflation, year-on-year <sup>(2),(6)</sup> .....	12.9	13.9	14.2	14.1	13.7	13.1	12.5	11.7	7.2	6.5	6.4	6.9	9.5	9.5
Fixed investments growth, year-on-year, % <sup>(1),(6)</sup> .....	23.6	19.9	16.5	9.8	(17.3)	(20.6)	(19.6)	(16.2)	(4.8)	1.3	2.9	6.0	(0.8)	2.7
Average unemployment rate <sup>(1)</sup> .....	6.7%	5.6%	5.9%	7.1%	9.1%	8.6%	7.8%	8.0%	8.8%	7.4%	6.8%	6.9%	7.5%	6.6%
Growth of non-financial sector lending, year-on-year <sup>(2),(7)</sup> .....	55.6	53.3	46.9	34.8	25.6	11.5	1.4	(2.4)	(6.0)	1.0	7.4	13.1	17.1	-
Average price of URALS oil, USD/barrel <sup>(2),(6)</sup> .....	93.7	105.3	107.6	93.9	43.2	50.5	56.3	60.7	75.0	75.8	75.8	78.2	102.6	108.3
Net capital inflow, USD billion <sup>(2)</sup> .....	(24.3)	40.0	(19.2)	(130.2)	(35.0)	3.6	(33.5)	8.8	(14.9)	3.4	(2.9)	(19.6)	(21.3)	(9.9)
RUB/USD exchange rate, end of period <sup>(2)</sup> .....	23.52	23.46	25.25	29.38	34.01	31.29	30.09	30.24	29.36	31.20	30.40	30.48	29.07	27.94
RUB/USD exchange rate, period average <sup>(4)</sup> .....	24.26	23.63	24.25	27.27	33.93	32.21	31.33	29.47	29.89	30.24	30.61	30.71	29.27	27.99
Federal budget balance (% of GDP) <sup>(5)</sup> .....	6.1	7.4	10.9	(8.5)	(0.3)	(7.3)	(6.1)	(9.6)	(2.3)	(1.3)	(2.7)	(9.2)	1.4	n/a

(1) Source: Rosstat.

(2) Source: the CBR.

(3) Source: Bloomberg (average between the price per barrel of Urals Northwest Europe and Urals Mediterranean).

(4) Source: the CBR. The average rates are calculated as the average of the daily exchange rates on each business day (as announced by the CBR for each such business day) and on each non-business day (using the exchange rate on the previous business day).

(5) Source: EUI (as of August 12, 2011).

(6) Calculated using cumulative figures since the beginning of the applicable year.

(7) Calculated using figures as of the end of the respective periods.

As of January 1, 2010, Russia had a population of 141.9 million people, according to Rosstat. In recent years, the Russian population has been decreasing. Over the last decade the size of Russia's population has been affected by relatively high mortality rates and relatively low birth rates, which, although partially offset by immigration, primarily from CIS countries, has resulted in a net decline in population since 1995. In order to mitigate this tendency the Russian Government introduced various programmes aimed at increasing the population. As a result of implementation of these programmes Russia experienced a notable upturn in the birth rate from 9.7 children per 1,000 population in 2002 to 12.5 children per 1,000 population in 2010 further supported by a decline in the mortality rate from 16.2 people per 1,000 population in 2002 to 14.2 people per 1,000 population in 2010. These programs are continuing and include, for example, RUB 398 billion in subsidies for multiple-child families (known as a "maternity capital" program) and RUB 1,074 billion to be spent on healthcare in 2011-2013, according to the federal budget.

The following table sets forth Russian birth rate and mortality rate data for the periods indicated.

	Year				
	2006	2007	2008	2009	2010
Number of births per 1,000 people .....	10.4	11.3	12.1	12.4	12.5
Number of mortalities per 1,000 people .....	15.2	14.6	14.6	14.2	14.2

Source: Rosstat



## Russian Residential Real Estate Market Overview

The demand for housing in Russia is cyclical in nature and is strongly influenced by general macroeconomic trends, as shown by the recent financial and economic downturn referred to above.

The following table sets forth data concerning the real growth in construction volume, and residential real estate completions in Russia for the periods indicated.

	Years Ended December 31,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real growth in construction volume <sup>(1)</sup> , year-on-year, % .....	2.9	12.8	10.1	13.2	18.1	18.2	12.8	(16.0)	(0.6)
Residential completions <sup>(2)</sup> , millions of square meters .....	33.8	36.4	41.0	43.6	50.6	61.2	64.1	59.9	58.4
<i>Growth year-on-year, % .....</i>	<i>6.7%</i>	<i>7.7%</i>	<i>12.6%</i>	<i>6.1%</i>	<i>16.1%</i>	<i>21.1%</i>	<i>4.6%</i>	<i>(6.5%)</i>	<i>(2.4%)</i>
Residential completions, thousands of apartments .....	396.0	427.0	477.0	515.0	609.0	722.0	768.0	702.0	717.0
<i>Growth year-on-year, % .....</i>	<i>3.7%</i>	<i>7.8%</i>	<i>11.7%</i>	<i>8.0%</i>	<i>18.3%</i>	<i>18.6%</i>	<i>6.4%</i>	<i>(8.6%)</i>	<i>2.1%</i>

Source: Rosstat

(1) Growth in the total value of construction works, calculated using comparative prices.

(2) "Completions" refers to a building that has been constructed, accepted by the State Commission and is ready for residents to move in.

Growth of residential construction over the period from 2002 to 2008 in Russia was primarily driven by a general shortage of housing, favorable macroeconomic conditions and the development of mortgage lending. Due to the continuing shortage of residential real estate, affordable housing programmes remain a priority for the Russian Government.

The economic downturn in the second half of 2008 and 2009 followed by the economic recession in Russia had an adverse impact on the Russian residential real estate sector, including lower demand as a result of an overall reduction in the disposable income of the general population.

In addition, the economic downturn limited the availability of mortgage financing to prospective real estate purchasers. The following table sets forth the volume of mortgage lending and the weighted-average interest rate on rouble-denominated loans for the periods indicated.

	Year					
	2005	2006	2007	2008	2009	2010
Volume of mortgage lending, RUB billion .....	56.3	263.6	556.5	655.8	152.5	378.9
Weighted-average interest rate on RUB-denominated loans, % ...	14.9	13.7	12.6	12.9	14.3	13.1

Source: the CBR

After reaching a minimum of 12.4% in the first three months of 2008, the weighted-average rouble-denominated interest rate on mortgages grew to 14.2% in January 2009 and reached a maximum of 14.9% in April 2009, according to the CBR. In 2009, mortgage lending decreased by 77% compared to 2008, according to the CBR, which resulted in a sharp decline in housing demand. As a result, the average selling price of residential real estate properties as well as the amount sold (pre-sold) through new sales contracts decreased significantly in the second half of 2008 and further declined in 2009. A decline in demand was accompanied by a fall in construction volumes, as set forth in the table above, which might also be expected to adversely affect the volume of residential real estate completions in the next two years.

The recovery observed in both the global and Russian economy is fully captured by the Russian residential real estate sector, as described below.

*Russian residential real estate market recovery, post-crisis*

In the second half of 2009, the Russian economy, aided by higher oil prices and stronger global commodity demand, began to recover. In conjunction with a slight decrease in inflation and an increase in real disposable income, this led to a gradual recovery of the Russian real estate market.

The following table sets forth the real growth in construction volume and residential real estate completions for the periods indicated:

	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011
Quarterly construction volume real growth, year-on-year, % .....	28.9	18.2	9.5	3.8	(19.3)	(19.3)	(17.2)	(10.7)	(11.1)	(3.3)	(1.1)	5.6	1.6	1.0
Residential completions, millions of square meters ...	10.2	11.5	13.5	28.9	10.4	11.2	13.3	25.0	9.5	12.0	11.4	25.5	9.3	11.4
Growth year-on-year, %.....	7.6	(1.2)	5.5	5.7	2.5	(2.8)	(2.2)	(13.6)	(8.9)	7.3	(14.3)	2.3	(2.2)	(4.9)

Source: Rosstat

As a result of the supportive measures implemented by the Russian Government and the overall signs of recovery in the financial and residential real estate sectors, the volume of mortgage lending in Russia started to grow in 2009 as shown in the following table:

	1H2008	2H2008	1H2009	2H2009	1H2010	2H2010	1H2011
Volume of mortgage lending, RUB billion.....	339	317	56	97	133	247	269
Half year-to-half year growth, % .....		(6.7%)	(82.3%)	72.7%	38.1%	85.0%	8.9%
Weighted-average interest rate on RUB-denominated loans, % <sup>(1)</sup> .....	12.5	12.9	14.6	14.3	13.5	13.1	12.2

Source : the CBR

(1) Weighted-average interest rate since the beginning of the applicable year.

#### Major indicators of the Russian residential real estate market performance

The following table sets forth residential completion volumes by region for the periods indicated:

	1990	1995	1990-5 CAGR	2000	2005	2006	2007	2008	2009	2010	CAGR, 2000- 2010	1H2011	Percentag e change, 1H 2011 compared to 1H 2010
<b>Total residential completions</b>													
<b>in Russia, .....</b>	<b>61.7</b>	<b>41.0</b>	<b>(7.8%)</b>	<b>30.3</b>	<b>43.6</b>	<b>50.6</b>	<b>61.2</b>	<b>64.1</b>	<b>59.9</b>	<b>58.4</b>	<b>6.8%</b>	<b>20.7</b>	<b>(3.7%)</b>
Moscow .....	2.3	2.5	2.5%	3.3	4.6	4.8	4.8	3.3	2.7	1.8	(6.2%)	0.9	7.2%
Moscow region .....	2.4	2.4	(0.3%)	2.6	5.3	6.5	7.8	7.9	8.5	7.9	11.8%	1.9	(26.2%)
St Petersburg .....	1.1	1.0	(1.0%)	1.1	2.3	2.4	2.6	3.2	2.6	2.7	9.4%	0.9	(12.9%)
Leningrad Region .....	0.8	0.4	(11.1%)	0.4	0.5	0.7	0.8	0.9	1.0	1.0	10.3%	0.4	(26.0%)
Other regions .....	55.2	34.7	(8.9%)	22.9	30.8	36.2	45.1	48.8	45.1	45.0	7.0%	16.7	
Share of other regions .....	89%	85%		75%	71%	72%	74%	76%	75%	77%		81%	

Source: Rosstat

In 2009, despite the economic downturn, growth in total residential completions was observed in many Russian regions. This is explained by the fact that many projects were started, financed and pre-sold before the economic downturn. However, in 2010 and 2011, the opposite situation has been observed, more accurately showing the effect that the economic downturn has had on the construction industry. For example, in Moscow and the Moscow region total residential completions (by millions of square meters) in 2010 decreased by 34.6% and 6.1%, respectively, compared to 2009.

In contrast to the volume of completions, the real growth in construction volume, which is an indicator of the construction activity in a period, decreased significantly in 2009, and has started to slowly recover in 2010 and the first half of 2011.

The following table sets forth the real growth in construction volume in the Russian Federal Districts and selected regions:

	2005	2006	2007	2008	2009	2010	1H 2011
	<i>Percentage growth</i>						
Russia .....	10.5	15.7	18.2	12.8	(16.0)	(0.6)	1.2
Central Federal District .....	5.3	11.3	9.4	0.9	(17.1)	1.9	(2.7)
<i>Moscow</i> .....	2.0	14.9	2.4	(1.8)	(19.1)	0.0	(14.9)
<i>Moscow region</i> .....	12.6	11.9	16.1	0.6	(24.5)	8.9	11.4
North-Western Federal District....	(0.1)	32.5	1.8	(0.5)	(19.6)	(3.0)	(11.7)
<i>St. Petersburg</i> .....	(8.3)	35.6	21.6	2.0	(22.7)	(0.9)	(15.4)
<i>Leningrad Region</i> .....	7.9	78.8	(8.9)	1.8	5.8	(8.5)	(10.5)
Urals Federal District .....	(2.6)	12.6	24.5	15.2	(22.1)	(0.5)	(3.2)
Far-East Federal District.....	12.7	8.9	4.4	(7.1)	(18.6)	6.2	1.8
Volga Federal District .....	16.6	7.6	19.7	11.5	(20.0)	2.0	7.7
Siberian Federal District.....	23.3	7.6	18.4	1.1	(22.1)	(0.7)	12.4
Southern Federal District.....	8.6	13.7	25.3	12.3	(4.4)	15.3	19.4
North-Caucasian Federal District..	-	-	-	-	-	(2.9)	(11.7)

Source: Rosstat

As set forth in the table below, for the period from the fourth quarter of 2005 to the fourth quarter of 2010, average prices per square meter for the primary residential real estate in Russia increased from 885 U.S. dollars per square meter to 1,568 U.S. dollars per square meter, representing a CAGR of 12.1%. The Moscow and Leningrad regions and St. Petersburg experienced the highest price growth for the period from 2005 to 2009. However, due to the economic downturn prices dropped significantly in 2009 and 2010. Prices have since stabilized and have shown some increases again in the first half of 2011.

The following table sets forth the average primary residential market prices in U.S. dollars per square meter for the periods indicated:

	4Q 2005	4Q 2006	4Q 2007	4Q 2008	4Q 2009	4Q 2010	CAGR 2005- 2010	2Q 2011	Percentag e change, 2Q 2011 compared to 1Q 2010
Russia .....	885	1,362	1,927	1,926	1,619	1,568	12.1%	1,508	(3.8%)
Central Federal District .....	1,211	1,799	2,523	2,570	2,113	2,071	11.3%	1,841	(11.1%)
<i>Moscow</i> .....	2,034	3,332	4,605	4,667	4,452	4,700	18.2%	4,521	(3.8%)
<i>Moscow region</i> .....	899	1,326	2,100	2,290	2,059	1,961	16.9%	2,384	21.6%
North-Western Federal District.....	852	1,409	2,368	2,371	2,256	1,797	16.1%	1,819	1.2%
<i>St. Petersburg</i> .....	1,092	1,710	3,256	3,254	3,059	2,548	18.5%	2,803	10.0%
<i>Leningrad Region</i> .....	636	861	1,245	1,743	1,784	1,578	19.9%	1,716	8.7%
Urals Federal District .....	816	1,331	1,773	1,540	1,324	1,418	11.7%	1,419	0.1%
Far-East Federal District.....	918	1,183	1,481	1,650	1,653	1,564	11.2%	1,556	(0.5%)
Volga Federal District .....	622	1,089	1,479	1,469	1,219	1,193	13.9%	1,224	2.6%
Siberian Federal District.....	739	976	1,486	1,422	1,188	1,165	9.5%	1,352	16.1%
Southern Federal District.....	617	868	1,307	1,506	1,263	1,279	15.7%	1,329	3.9%
North-Caucasian Federal District.....	-	-	-	-	-	948	-	1,027	8.3%

Source: Rosstat

The following table sets forth the average secondary residential market prices in U.S. dollars per square meter for the periods indicated:

	4Q 2005	4Q 2006	4Q 2007	4Q 2008	4Q 2009	4Q 2010	CAGR 2005- 2010	2Q 2011	Percentag e increase, 2Q 2011 compared to 4Q 2010
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Russia .....	772	1,377	1,915	2,072	1,795	1,954	20.4%	1,667	(14.6%)
Central Federal District .....	999	2,079	2,812	3,154	2,825	3,211	26.3%	2,508	(21.9%)
Moscow .....	1,827	3,811	5,188	5,694	5,392	5,540	24.8%	5,840	5.4%
Moscow region .....	884	1,550	2,143	2,671	2,115	2,161	19.6%	2,335	8.1%
North-Western Federal District.....	795	1,378	1,793	2,044	1,927	2,006	20.3%	1,706	(14.9%)
St. Petersburg .....	1,123	1,831	2,394	2,904	2,857	2,609	18.4%	3,154	20.9%
Leningrad Region.....	614	957	1,258	1,474	1,586	1,456	18.9%	1,607	10.4%
Urals Federal District .....	789	1,198	1,712	1,628	1,324	1,342	11.2%	1,531	14.1%
Far-East Federal District.....	709	1,066	1,474	1,697	1,535	1,560	17.1%	1,981	27.0%
Volga Federal District .....	624	1,131	1,527	1,500	1,210	1,204	14.1%	1,314	9.1%
Siberian Federal District.....	698	1,008	1,547	1,488	1,178	1,274	12.8%	1,460	14.6%
Southern Federal District.....	587	831	1,300	1,612	1,364	1,541	21.3%	1,598	3.7%
North-Caucasian Federal District.....	-	-	-	-	-	1,025	-	957	(6.6%)

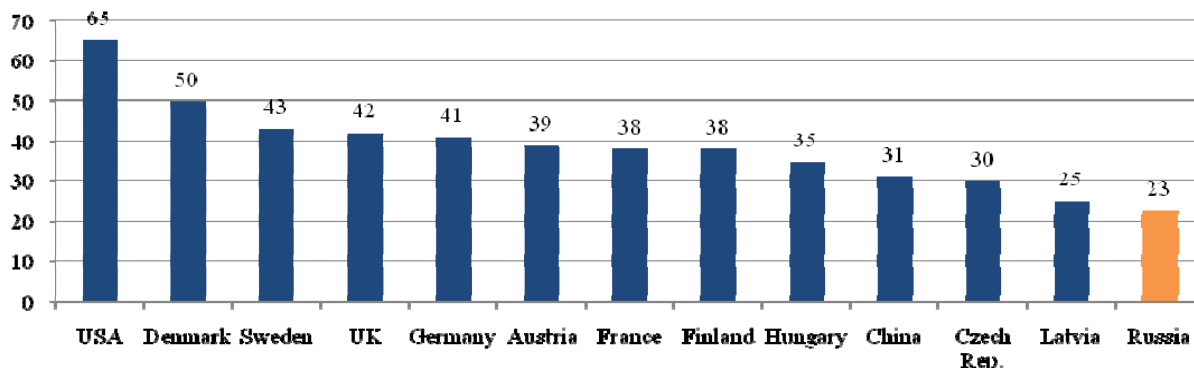
Source: Rosstat

### Russian residential real estate market growth fundamentals

Until the end of 2008, the rapid development of the Russian real estate market described above was predominantly driven by several fundamental factors that are likely to continue to support market growth after the economic downturn.

According to Rosstat, at the end of December 2010, the total area of residential real estate stock in Russia was approximately 3.2 billion square meters, or approximately 22.6 square meters per capita. This is considerably lower than the average in developed European countries and in the United States, according to the UNECE.

The following table sets forth the residential space per capita in square meters in Russia compared to several other countries:



Source: Rosstat 2010 data for Russia, UNECE for other countries

Rapid government-funded housing construction decreased dramatically after the breakup of the Soviet Union in the early 1990s. As a result, the existing Russian residential housing stock includes a substantial amount of aging or obsolete stock dating from the Soviet era. As of December 31, 2009, approximately 60% of the existing residential stock in Russia was estimated to be poorly maintained, while approximately 11% required an urgent major overhaul and approximately 9% required a full reconstruction, according to the Russian Ministry of Industry and Trade.

According to Rosstat, over the past five years, the amount of annual investment in construction activities in Russia increased by a factor of more than 1.5 over the past five years, reaching USD 11.9 billion in 2010 compared to USD 4.6 billion in 2005, partly as a result of growing disposable incomes, decreasing unemployment and development of the mortgage market. The Economist Intelligence Unit estimates that real personal disposable incomes in Russia will grow at an annual average rate of 4.0% in 2011-2015 (forecast as of August 12, 2011). Growth in disposable incomes, supported by further development of the Russian mortgage market, is likely to contribute to an increase in demand for residential real estate.

### Government support

The Russian Government has historically been and remains supportive of the country's residential real estate market by actively financing mass-market housing construction and implementing various programmes to support demand for residential real estate. This has become particularly important in the current market conditions.

The mortgage market, as one of the key drivers of residential real estate demand, is supported by the Russian Government by various direct and indirect measures. Direct measures include the financing support of OJSC "Agency for Housing Mortgage Lending" ("AHML"), a state-owned entity, which may take the form of a contribution to the capital of AHML or a state guarantee of bonds issued by the AHML. Indirect measures include steps taken by the AHML aimed at providing additional liquidity to the mortgage market, including acquisitions of pools of mortgages generated by the banks and other institutions, loans to banks and institutions that offer mortgage financing to individuals, mortgage loans provided to qualifying individuals as well as guarantees for borrowings to modernize communal services. In addition, OJSC "Agency for Restructuring Mortgage Loans", a subsidiary of the AHML, provides assistance to qualifying individuals in financial hardship helping to restructure their mortgage loans.

The following table sets forth data concerning the mortgage market support given under the Federal government's affordable housing program known as "Zhilische" for the periods indicated:

	Years Ended December 31,				
	2006	2007	2008	2009	2010
State guarantees for AHML borrowings, RUB million <sup>(1)</sup> .....	14,000	16,000	28,000	36,000	44,000

Source: Federal Law "On the federal budget for 2010 and the planning period of 2011 and 2012" No. 308-FZ dated December 2, 2009 (as amended); Federal Law "On the federal budget for 2009 and the planning period dated 2010 and 2011" No. 204-FZ of November 24, 2008 (as amended); Federal Law "On the federal budget for 2008 and the planning period of 2009 and 2010" dated July 24, 2007 No. 198-FZ (as amended); Federal Law "On the federal budget for 2007" dated December 19, 2006 No. 238-FZ (as amended); Federal Law "On the federal budget for 2006" dated December 26, 2005 No. 189-FZ (as amended).

In addition to state support at the federal level under the "Zhilische" programme, regional authorities have implemented their own measures to facilitate demand in their local residential real estate market.

The Russian Government's support of the residential real estate market has also had an indirect impact on the Russian mortgage market. According to Russian press reports, the Russian President and Prime Minister have voiced their support for a decrease in interest rates for residential real estate mortgages.

During the recent economic downturn, the Russian Government applied three major anti-downturn measures to support the sector:

- **State guarantees for corporate loans.** State guarantees for selected corporate loans have allowed construction companies and developers to obtain long-term financing from state-owned Russian banks to re-finance maturing debt and to meet their working capital needs. According to Russian press reports, since the beginning of the recent economic downturn, state guarantees provided to cover indebtedness of the largest construction companies operating in Moscow (which consisted of the Company, SU-155 Group, Glavstroy and Inteco) amounted to approximately RUB 33.6 billion (as of August 2010).
- **Purchase of apartments with a high degree of completion certainty.** According to Russian press reports, for the period from the end of 2008 to August 2010, the Russian Government bought apartments considered to have a high degree of completion certainty (viewed as at least approximately 70% certainty) worth approximately RUB 40.0 billion.
- **State sub-contracting for construction of new residential housing for public employees, military personnel and indigent families.** This measure had been used to support the construction industry before the recent economic downturn, but its volume was expanded in recent years, primarily by the Ministry of Defense. During 2009 and 2010, the Ministry of Defense spent approximately RUB 90 billion on construction services provided by independent contractors.

### Russian real estate market segmentation

The residential market in Russia can be divided into many different segments, including by quality of design, construction materials and technology, price range, geographical location, number of rooms and living space area. However, the most widely used system of segmentation for primary residential real estate is based on the quality of real estate and its price range, splitting the market into the following three categories:

- **Affordable class (mass-market).** This segment includes standardized housing in the low-to-mid price range. Buildings of this segment are built to a standard design from prefabricated reinforced concrete panels and are inexpensive relative to other classes as the costs of design, labor and materials are relatively low. This segment also includes poured concrete buildings built to simplified designs. Mass-market prefabricated panel housing is often considered equivalent or superior to economy poured concrete housing because of the high quality of the latest prefabricated panel designs.
- **Business class.** This segment includes both standardized and customized housing in the mid-to-high price range. This segment includes brick and poured concrete buildings, often with underground parking, improved layouts and higher quality insulation. The high end of the business class segment (referred to as “Business plus”) includes new poured concrete buildings in prestigious locations often in gated developments, made of high quality construction materials, with on-site security and underground parking.
- **Elite (luxury).** This segment includes premium and super-premium (or “exclusive”) class housing in the high to very high price range. These buildings usually have fewer apartments in comparison to buildings in lower price segments. Situated in prime locations (often in a gated development), they generally have air-conditioning, a security system, telephone and internet lines, a modern interior and exterior design, and often have a garden. In contrast to the Affordable segment, which is mainly primary, the Elite segment is dominated by secondary demand, making it difficult to capture scalable growth in this segment.

#### *Russian Affordable housing segment overview*

Prefabricated panel housing is common in Russia, as it is typically the most affordable type of mass-market housing. It is normally transferred to customers by, for example, a developer or on behalf of the federal, regional or local government, in finished (“turn-key”) condition, permitting its customers to immediately move in and live in the property. The finished property typically includes installed doors and windows, finished floors, installed plumbing and wiring, installed bathroom and toilet facilities, and painted or wallpapered walls. Prefabricated panel buildings are most commonly constructed under governmental contracts for social housing intended for public employees, military personnel and indigent families. Mass-market housing intended for sale to private investors by developers is often offered in “shell and core” condition, which means that the completed property, which is delivered to a customer, includes installed elevators, plumbing and wiring, windows, front doors, plaster ceilings and walls, but each apartment owner is then responsible for the apartment fit-out, including the installation of flooring, inside doors, kitchen cabinets, appliances and light fixtures.

Panel factories normally not only produce pre-designed concrete panels but also act as general contractors or sub-contractors engaged either by developers or the government directly. Panel plants may also provide other services including architectural supervision, construction of car parks and exterior facilities, building commissioning and maintenance.

The affordable class segment targets the largest part of the population, which cannot fully finance the acquisition with their own cash and relies heavily on mortgage lending. Accordingly, government support aimed at stimulating mortgage lending and increasing construction orders for mass-market housing should positively most affect the affordable class.

As the majority of the Russian population is skewed towards low- and middle-income levels, mass-market prefabricated panel housing is particularly important and is viewed as practically the only way of fulfilling the deficit of housing stock in Russia.

#### **The Moscow Metropolitan Area Residential Real Estate Market Overview**

The Moscow Metropolitan Area is and has historically been the largest real estate market in Russia. This market has shown some of the most significant rates of growth in the entire country since the collapse of the Soviet Union, supported by continuous migration from the Russian regions to the capital and the surrounding region.

The Moscow Metropolitan Area is one of the most densely populated areas in Russia. According to Rosstat, as of 1 January, 2010, population of the Moscow Metropolitan Area amounted to 12.2% of the country’s total population. Driven by economic growth and increasing migration, the population of the Moscow Metropolitan Area has been growing with a compound annual

growth rate (“CAGR”) of 0.4% over the period from 2000 to 2010 (compared to a negative 0.4% CAGR of the rest of the country’s population over the same period). This growth has supported strong demand for residential real estate in this area.

Accordingly, the Moscow Metropolitan Area constitutes the largest real estate market in Russia, with 420 million square meters of space, representing 13.0% of the total housing stock in Russia as of December 31, 2010, according to Rosstat. However, the housing stock per capita remains one of the lowest in Russia, at 22.6 square meters per capita as of December 31, 2010, according to Rosstat. In 2010, housing completions in the Moscow Metropolitan Area amounted to 9.7 million square meters, according to Rosstat. As of the fourth quarter of 2010, the average prices of primary housing in Moscow and the Moscow region were 4,700 and 1,961 U.S. dollars per square meter, respectively, in comparison to a Russian average of 1,568 U.S. dollars, according to Rosstat. Residential construction activity in the Moscow Metropolitan Area and St. Petersburg was relatively unaffected by the general decline in activity in Russia in the post-Soviet period from 1990 to 2000. As a result, other regions’ shares of the total national residential construction volume decreased from 91% in 1990 to 70% in 2004 and only began to recover only in 2005.

*Moscow*

Residential completions in Moscow grew steadily between 2000 and 2007 with a CAGR of 5.4% until the crisis hit the industry. In 2008-2010 residential completions in Moscow experienced a decline of 32%, 17% and 34%, respectively.

According to IRN (the Moscow Metropolitan Area focused real estate agency “Index of real estate market”), average prices for residential real estate on the secondary market in Moscow increased by 15.7% in August 2011 compared to August 2010, from approximately 4,415 U.S. dollars per square metre to approximately 5,107 U.S. dollars per square meter.

The table below sets out the historical average prices for residential real estate on the secondary market in Moscow per square metre for particular types of buildings for the periods indicated:

	<u>Dec 2007</u>	<u>Dec 2008</u>	<u>Dec 2009</u>	<u>Dec 2010</u>	<u>Aug 2010</u>	<u>Aug 2011</u>
	<i>U.S. dollars per square metre, unless otherwise indicated</i>					
Panel buildings.....	4,020	5,316	3,782	4,242	4,117	4,764
<i>Year-on-year growth</i> .....		32.2%	(28.9%)	12.2%	-	15.7%
Poured concrete and brick buildings.....	4,732	6,148	4,397	4,902	4,738	5,513
<i>Year-on-year growth</i> .....		29.9%	(28.5%)	11.5%	-	16.4%

Source: IRN

The following table sets forth the historical average prices for residential real estate on the primary market in Moscow by segment for the periods indicated:

	<u>4Q 2005</u>	<u>4Q 2006</u>	<u>4Q 2007</u>	<u>4Q 2008</u>	<u>4Q 2009</u>	<u>4Q 2010</u>	<u>CAGR</u> <u>2005-2010</u>	<u>1Q 2011</u>	<u>2Q 2011</u>	<u>Percentage</u> <u>increase,</u> <u>2Q 2011</u> <u>compared</u> <u>to 4Q 2010</u>
	<i>U.S. dollars per square metre</i>									
Affordable class.....	1,352	2,540	2,938	3,510	3,260	3,300	19.5%	3,376	3,528	6.9%
Business class .....	1,615	2,882	3,859	3,859	3,869	3,861	19.0%	4,674	4,922	27.5%
Elite.....	3,092	4,924	7,197	7,155	7,155	8,012	21.0%	7,629	7,983	(0.4%)

Source: Rosstat, data for the primary market

Moscow has clearly defined geographical submarkets, with the most expensive and prestigious locations in the central (being inside the circular “Garden Ring” road in the centre of the city), western and south-western districts.

The following table sets forth residential prices in Moscow by district in U.S. dollars per square meter for the periods indicated:

	Month average				Percentage increase, August 2011 compared to August 2010
	January 2010	August 2010	January 2011	August 2011	
	<i>U.S. dollars per square meter</i>				
<b>City-wide average</b> .....	<b>4,055</b>	<b>4,415</b>	<b>4,530</b>	<b>5,107</b>	15.7%
Central district .....	6,254	6,692	6,730	7,536	12.6%
South-western district .....	4,691	5,112	5,285	5,994	17.3%
Western district .....	4,512	4,849	4,898	5,566	14.8%
Northern district.....	4,062	4,331	4,502	5,020	15.9%
North-western district.....	3,998	4,407	4,542	4,953	12.4%
North-Eastern district .....	3,752	4,044	4,177	4,747	17.4%
Eastern district .....	3,728	4,065	4,129	4,621	13.7%
Southern district .....	3,668	3,978	4,055	4,540	14.1%
South-eastern district .....	3,441	3,761	3,805	4,353	15.7%
Outside of the Moscow Ring Road .....	3,328	3,596	3,652	4,172	16.0%

Source: IRN

### *Moscow region*

The Moscow region, which excludes the city of Moscow itself, has a population of approximately 6.8 million as of 1 January, 2010, according to Rosstat, and has been the largest residential real estate market in Russia since 2004, when construction volume in the region exceeded that of Moscow. Its share of the total volume of residential completions in Russia increased from 8.6% in 2000 to 13.6% in 2010, according to Rosstat.

### *Affordable housing in the Moscow Metropolitan Area*

Given an attractive mix of price and quality offered by the affordable housing and panel construction technology, this type of apartments is particularly important in the Moscow Metropolitan Area. New construction sites of affordable housing are increasingly concentrated outside of the city center, in densely populated areas. Also, the recent construction of large “technoparks” outside of Moscow has given rise to significant growth potential for affordable housing construction around.

Despite the potential for significant growth in this segment of the market, panel construction capacities in the Moscow Metropolitan Area are quite limited, with a relatively small number of participants operating most of the existing production capacity. The Company is one of the largest, in terms of capacity.

### *Key participants in the Moscow Metropolitan Area market — panel construction*

According to the relevant companies’ data and public sourced, there are four key participants in the Moscow Metropolitan Area panel construction market, as set forth in the following table:

Name	Description of key panel construction assets in MMA	Geography of existing plants location	Panel housing annual construction capacity, (in thousands square meters)
<b>PIK</b> .....	2 DSKs in Moscow and 1 DSK in Moscow region.	Moscow, the Moscow region, other regions	1,350
<b>DSK-1</b> .....	4 panel production and 5 assembly units.	Moscow and the Moscow region	1,050
<b>Glavmosstroy</b> .....	6 production entities	Moscow and the Moscow region	599
<b>Su-155</b> .....	3 panel production entities	Moscow, St. Petersburg, Nizhny Novgorod Samara, Kaliningrad, Vologda and other regions	780

Source: for SU-155 – company’s website (as of September 9, 2011); for PIK – company’s data (as of June 30, 2011); for DSK-1 – company’s annual report for 2010 and website (as of September 9, 2011).



*Key players in the Moscow Metropolitan Area market — poured concrete construction*

The largest residential developers specializing in poured concrete construction include Inteco, Donstroy, PIK, MFS-6, Sistema-Hals, Capital Group etc.

**Russian Regional Real Estate Market Overview**

The regional Russian real estate market, where the population's salaries are mainly lower than those in the Moscow Metropolitan Area and the demand for housing is particularly sensitive to changes in disposable income, was severely affected by the recent economic downturn. However, the regions are currently demonstrating some signs of recovery and are expected to become the key source of growth in the Russian real estate market in the long-term.

Regional markets are driven by the dynamics of local disposable incomes and the supply of and demand for real estate from the local population. The table below sets forth selected key economic data for our target (current or potential) regional markets:

	Gross Regional Product per capita			Population			Average monthly salary	
	2007 (U.S. dollars)	2008 (U.S. dollars)	2009 (U.S. dollars)	As of January 2010 (million)	Natural growth per 1,000, 2010	Net migration per 1,000, 2010	2009 (U.S. dollars)	2010 (U.S. dollars)
Moscow.....	25,038	31,638	21,415	10.6	(0.2)	8.2	950	1,140
Moscow Region.....	7,607	9,893	7,166	6.8	(4.5)	9.5	696	784
Krasnodar Region.....	4,958	6,302	5,248	5.2	(1.4)	5.1	463	525
St. Petersburg.....	9,580	12,592	10,116	4.6	(2.0)	8.0	717	852
Rostov Region.....	4,129	5,456	4,139	4.2	(3.8)	0.3	432	493
Nizhniy Novgorod Region.....	5,490	7,071	5,165	3.3	(7.0)	1.1	455	521
Kaliningrad Region.....	6,003	7,694	5,711	0.9	(2.8)	3.7	493	600
Udmurtia Republic.....	5,237	6,391	4,734	1.5	0.3	(2.4)	407	464
Omsk Region.....	5,724	6,940	5,264	2.0	(0.7)	(1.3)	462	545
Yaroslavl Region.....	5,536	6,588	5,127	1.3	(5.9)	1.3	445	515
Kaluga Region.....	4,342	6,025	4,927	1.0	(5.5)	0.6	468	546
Perm Region.....	6,856	9,006	6,346	2.7	(1.2)	(1.4)	466	551
<b>Russia.....</b>	<b>7,693</b>	<b>9,610</b>	<b>7,124</b>	<b>141.9</b>	<b>(1.7)</b>	<b>1.1</b>	<b>562</b>	<b>657</b>

Source: Rosstat

The following table sets forth residential completion volumes in the largest Russian regions by population for the periods indicated:

	Residential Completions Volume						CAGR 2005-2010
	2005	2006	2007	2008	2009	2010	
	<i>Square meters, thousands</i>						
Moscow.....	4,649	4,780	4,825	3,264	2,703	1,768	(18%)
Moscow region.....	5,297	6,484	7,805	7,881	8,452	7,939	8%
Krasnodar Region.....	1,940	2,705	3,704	3,938	3,412	3,606	13%
St. Petersburg.....	2,273	2,376	2,637	3,212	2,603	2,657	3%
Rostov Region.....	1,186	1,388	1,706	2,008	1,805	1,809	9%
Nizhniy Novgorod Region.....	748	827	1,072	1,354	1,404	1,453	14%
Kaliningrad Region.....	266	502	753	801	608	525	15%
Udmurtia Republic.....	372	424	483	486	465	482	5%
Omsk Region.....	756	906	1,104	1,016	605	707	(1%)
Yaroslavl Region.....	224	247	420	397	376	292	5%
Kaluga Region.....	263	265	458	632	457	501	14%
Perm Region.....	638	718	884	833	695	761	4%

Source: Rosstat

In general, growth in construction in a given market has tended to reflect the overall growth of that market. The highest construction growth has typically been observed in cities with population over 500,000, which are able to attract more labor and capital resources.

Growth in residential real estate prices has historically differed significantly from city to city, depending on local supply and demand factors, with prices ranging from an average of 1,128 U.S. dollars per square meter in the Omsk region to 4,521 U.S. dollars per square meter in Moscow in 2Q 2011. The following table sets forth average residential primary market prices per square meter for selected regions of Russia in U.S. dollars for the periods indicated:

	Average price (U.S. dollars per square meter) <sup>(1)</sup>			Change in average price for the periods indicated			
	2Q 2011	4Q 2010	4Q 2009	4Q 2010	4Q 2009	4Q 2008	4Q 2007
				compared to 4Q 2009	compared to 4Q 2008	compared to 4Q 2007	compared to 4Q 2006
Moscow.....	4,521	4,700	4,452	6%	(5%)	1%	38%
Moscow region .....	2,384	1,961	2,059	(5%)	(10%)	9%	58%
Krasnodar Region .....	1,374	1,289	1,340	(4%)	(23%)	7%	47%
St. Petersburg .....	2,803	2,548	3,059	(17%)	(6%)	(0%)	90%
Rostov Region .....	1,582	1,379	1,434	(4%)	(5%)	20%	38%
Nizhniy Novgorod Region ..	1,607	1,532	1,720	(11%)	(25%)	0%	29%
Kaliningrad Region.....	1,391	1,311	1,554	(16%)	(5%)	4%	103%
Udmurtia Republic .....	1,226	1,078	1,251	(14%)	(12%)	(10%)	31%
Omsk Region .....	1,128	1,018	1,060	(4%)	(14%)	(7%)	46%
Yaroslavl Region .....	1,425	1,223	1,272	(4%)	(23%)	(7%)	20%
Kaluga Region .....	1,691	1,472	1,580	(7%)	(28%)	35%	49%
Perm Region .....	1,553	1,313	1,411	(7%)	(24%)	(8%)	84%
<b>Russia .....</b>	<b>1,508</b>	<b>1,568</b>	<b>1,619</b>	<b>(3%)</b>	<b>(16%)</b>	<b>(0%)</b>	<b>41%</b>

Source: Rosstat, data for the primary market

## BUSINESS

### Overview

We are one of the leading residential real estate developers in Russia, with a particular strategic focus on the Moscow Metropolitan Area. Our principal activity is the development, construction and sale of mass-market residential properties in the Russian real estate market. We believe we have a well-recognized brand in the Russian real estate market, particularly in the Moscow Metropolitan Area. During 2010 and the six months ended June 30, 2011, we completed construction of approximately 739 thousand square meters and 354 thousand square meters of residential housing, respectively, including housing constructed for federal and local authorities and other developers. We are one of the few integrated developers in Russia, which allows us to manage and control many of the important steps of the development and sales of our properties. For the year ended December 31, 2010 and the six months ended June 30, 2011, we had revenues of RUB 38,090 million and RUB 22,794 million and total comprehensive loss of RUB 6,085 million and total comprehensive income of RUB 3,186 million, respectively. As of June 30, 2011, we had approximately 11,959 employees.

Our core activities are: (1) the development of residential real estate properties and sales of completed units, categorized under the real estate development segment in our Consolidated Financial Statements; (2) the construction of reinforced concrete panel housing, production and assembly of prefabricated panel residential buildings, including construction at our development sites and construction services provided to third parties, categorized under the construction segment in our Consolidated Financial Statements; (3) the production of reinforced concrete panels, window frames and other construction materials, categorized under the industrial segment in our Consolidated Financial Statements; and (4) the servicing and maintenance of real estate properties constructed by us and other developers and other activities, not included in the real estate development, construction and industrial segments, categorized under the segment of other operations in our Consolidated Financial Statements.

We believe that our integrated real estate development process gives us an important advantage in our industry as compared to our competitors. We own several plants that produce reinforced concrete panels, window frames and aluminum facades that are used in the construction of our projects, and, in the Moscow Metropolitan Area, we assemble and construct all concrete panel housing for our developments. We also provide servicing and maintenance for a substantial number of our developed properties. Beyond our own operational capabilities, we have established and continue to build strategic relationships with a wide range of financial institutions that provide mortgage financing to our clients, including state-controlled Sberbank, VTB 24 and Gazprombank and privately-owned Rosbank, Svyaz-Bank, Bank Vozrozhdenie, Uralsib, Housing Finance Bank, Investtradebank, Baltica Bank and Nordea Bank.

We focus our operations on developing large residential properties, some of which are large townships integrated with social infrastructure (e.g., kindergartens, schools and sport centers). As of June 30, 2011, our portfolio of real properties (“properties” or “development projects”) encompassed 100 properties, including 8 properties held as investment (completed and partially sold residential properties), 44 properties in the course of development and 48 properties held for development. These properties have been internally approved for a total of 12.9 million square meters of net sellable area attributable to the Company (PIK Share). According to the Valuation Report, as of June 30, 2011, the combined Market Value of our properties was USD 2.7 billion. See “*Business — Development Projects — Ongoing Development Projects.*” As of June 30, 2011, our large and diversified land bank consisted of 1,513.39 hectares of land, which we believe helps us ensure sustainability of our growth and a leading market position in the future.

We own two of the three reinforced concrete panel manufacturers in Moscow, DSK-2 and DSK-3. We also own 100 KGI, which is a concrete panel manufacturer located in the Moscow region, as well as NSS and 480 KGI. NSS is a manufacturer of concrete, reinforced concrete elements and panels and other construction materials located in Obninsk, the Kaluga region, close to the border of the Moscow region. 480 KGI is a manufacturer of prefabricated panel housing located in Alexin, a town in the Tula region. Industrial and construction facilities that we own have the aggregate prefabricated production capacity of approximately 1,350 thousand square meters of housing per year.

Our operations have historically been concentrated in the Moscow Metropolitan Area. Since the beginning of 2007, we have developed and completed over 1 million square meters of housing in Moscow (including housing constructed for federal and local authorities and other developers) and over 1.5 million square meters of housing in the Moscow region. We have also undertaken a number of development projects in other regions of Russia, including Rostov-on-Don, Nizhniy Novgorod, Yaroslavl, Perm, Kaluga, Kaliningrad, Izhevsk, Novorossiysk, Omsk and St. Petersburg. As of June 30, 2011, 27 of our properties were located in Moscow, 25 in the Moscow region and 48 in other regions of Russia.

With respect to our real estate development and construction activity, the table below sets forth certain operating information during the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
	<i>NSA, thousand sq. m.</i>				
New sales contracts (PIK Share) <sup>(1)</sup> .....	520	123	392	159	229
Total completions <sup>(2)</sup> .....	813	884	739	245	354
Housing completions.....	621	732	375	81	299
Construction services completions .....	192	152	364	164	55
Transferred to customers (PIK Share) <sup>(3)</sup> ...	378	492	434	152	260

- (1) Source: management accounts. This represents the net sellable area of housing for which sales contracts have been entered into with customers.  
(2) Source: management accounts. This represents the net sellable area of housing, including housing constructed for federal and local authorities and other developers, accepted by the State Commission.  
(3) Source: Consolidated Financial Statements. This represents the net sellable area of housing delivered to our customers for which the customer has signed an act of acceptance for the apartment.

## History and Development

We were founded in September 1994 as PIK (“First Mortgage Company”) and initially invested in a small number of residential development projects in Moscow. In 1996, we significantly expanded our operations in Moscow, and, in 1998, we launched mortgage financing activities in cooperation with the Moscow Mortgage Agency, an agency of the Moscow Government that we helped to establish at the request of the Moscow Government. The Moscow Mortgage Agency was commissioned to develop a residential mortgage infrastructure for the city of Moscow. Housing Finance Bank, affiliated with the Founding Shareholders of the Company, originated the first ten pilot mortgages in Moscow under this new mortgage program. Currently, we continue to promote mortgage financing programs, and the majority of leading banks in Russia, such as Gazprombank, VTB 24, Sberbank, Rosbank, Svyaz-Bank, Bank Vozrozhdenie, Uralsib, Housing Finance Bank, Investtradebank, Baltica Bank and Nordea Bank, have established mortgage financing programs tailored to the needs of our customers.

We began our diversification into industrial activities in 2001 with our acquisition of DSK-2, a concrete panel manufacturer in Moscow. This acquisition gave us the capability to provide our own materials for construction on a significantly larger scale and allowed us to become a leading developer in the residential real estate market in Moscow.

In 2003, we began the process of expanding our operations into the Moscow region, and we are now one of the leading developers of residential real estate in the Moscow region.

In 2004, we began the process of building up our portfolio of projects in other regions of Russia. We started from the acquisition of a development project in Rostov-on-Don. In 2006, we acquired Stroyinvestregion, a regional developer with several projects in various regions of Russia. In 2007 and the first half of 2008, we acquired interests in a number of development projects in several regions of Russia, including St. Petersburg, the Yaroslavl, Perm, Kaliningrad, Kaluga, Krasnodar regions and the Republic of Udmurtia.

In 2005, we acquired DSK-3, a concrete panel manufacturer in Moscow, and 100 KGI, a prefabricated concrete panel plant located in the Moscow region. With the acquisition of DSK-3, we now own two of the three concrete panel manufacturers in Moscow. In 2007, we acquired a number of manufacturers of concrete, reinforced concrete elements and panels and other construction materials, located in Obninsk, a city located close to the border of the Moscow and Kaluga regions (in 2008, we consolidated all these production facilities at NSS). In 2008, we launched a production unit for precast framed construction elements at NSS. We use upgraded technologies for production of such precast framed elements and construction of buildings using such elements, which provides us with significant flexibility at the project design stage, including different layouts of apartments, and increases our cost efficiency. Since the launch of precast framed construction elements production unit, we have already completed a number of buildings using such upgraded construction technologies.

At the end of 2005, we completed the first phase of a restructuring process aimed at consolidating assets, changing our corporate structure and introducing international standards of corporate governance. Following this phase, all companies under

the PIK umbrella were consolidated under PIK Group, a Russian open joint stock company, which is now the holding company for all our businesses. In June 2007, PIK Group listed on the LSE, MICEX and RTS.

The recent economic downturn adversely affected our business, financial condition and results of operations. In the second half of 2008 and in 2009, as with many other real estate developers in Russia and abroad, we experienced a steep decline in demand for apartments in our real estate developments. In 2009, we entered into contracts with our customers for 123 thousand square meters of housing, which represents an 85% decrease compared to the 2007 pre-crisis level. To reduce the impact of the economic downturn on our operations and overcome related liquidity constraints, we revised our development strategy and concentrated on achieving higher operating efficiency while reducing cash expenditures. In 2009, we divested a number of subsidiaries and development projects unrelated to our core business operations in order to maximize liquidity and meet our working capital needs during the downturn, repay a portion of our indebtedness, reduce our costs and concentrate on our core business activities. We discontinued our investment program in Russian regions outside the Moscow Metropolitan Area and closed our offices outside Russia. As of June 30, 2011, our land bank encompassed properties in a number of Russian regions in addition to the Moscow Metropolitan Area and included development projects in Izhevsk, Kaluga, Rostov-on-Don, Omsk, Nizhny Novgorod, Yaroslavl, Novorossiysk, Kaliningrad, St. Petersburg, Taganrog, Svetlogorsk, Azov, Obninsk and Perm.

From 2009 to 2011, we completed the restructuring and recapitalization of all of our bank debt, which allows us to satisfy our working capital requirements in connection with development, industrial and construction activities and satisfy the growing demand in the recovering residential housing market. A key element to the successful restructuring was the receipt of support from the Russian Government, as well as divestment of certain non-core assets (see *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Disposals”*). The guarantees of the Russian Federation were granted in favor of Sberbank as security for the obligations of the Company and our subsidiary PIK-Region under the credit agreements with Sberbank. The receipt of these guarantees allowed us to successfully complete the restructuring of our credit portfolio in February 2011 and secure additional funds to finance new projects. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources — Debt restructuring completed in February 2011.”*

## **Competitive Strengths**

***Leading market position in the Moscow Metropolitan Area and a significant presence in Russia’s other regions.*** Since 1994, when we were incorporated, we have completed over 10 million square meters of housing in the Moscow Metropolitan Area, including housing constructed for federal and local authorities and other developers. Based on the Rosstat data on the construction volume in the Moscow Metropolitan Area and our data on the construction volumes of our Group, our share of construction of residential housing (not including construction of individual homes) in the Moscow Metropolitan Area was 9% in 2010. With a proven track record of completed projects, we can more easily secure new land plots for development, which we believe will allow us to retain our market position in the future. As a result of the expansion of our activities into other regions of Russia over the past several years, we are currently developing projects in a number of Russian regions outside the Moscow Metropolitan Area, including Nizhniy Novgorod, Yaroslavl, Perm, Obninsk and Omsk. On December 25, 2008, by the decision of the Commission for the Sustainable Development of the Russian Government, we were recognized as a company of strategic importance to the Russian economy, which shows our position as one of the residential real estate development and construction industry leaders.

***Integrated business model.*** Our development activities are integrated with our industrial and construction segments, which allows us to manage and control the most important stages of the development process. In addition to our large and diversified portfolio of development projects, we operate industrial and construction facilities with the prefabricated reinforced concrete panel production capacity of approximately 1,350 thousand square meters of housing per year. Our operations include: the identification and evaluation of development opportunities and the procurement of all necessary planning approvals; preparation of detailed project designs; manufacturing of reinforced concrete panels required for assembly of panel housing; production of construction materials; construction and sale of real estate units; building maintenance and other services provided to our customers before, during and after the sale of real estate units. We believe that this integrated process provides us with several advantages, including (i) cost efficiencies derived from performing development, construction and sales, which allow us to achieve higher profit margins, (ii) a guaranteed supply of certain construction materials for our construction projects, (iii) operational flexibility and reliability, thus allowing us to quickly build and deliver products to meet the market demand, (iv) better quality control through all stages of the development process and (v) strong knowledge and understanding of our customers, obtained from our own sales and relationship teams, which is then used to tailor our future construction projects to meet market demand. In the construction of our panel housing, we use relatively standardized products that result in greater efficiency and quicker construction.

**Large and diversified land bank.** As of June 30, 2011, we either owned or have obtained development rights to approximately 12.9 million square meters of net sellable area. As of June 30, 2011, approximately 10.1% of the unsold net sellable area attributable to us was located in Moscow (51.3% by Market Value), approximately 36.3 % (35.9 % by Market Value) was located in the Moscow region and approximately 53.6 % (12.7 % by Market Value) was located in other regions of Russia, including the Kaliningrad, Kaluga, Rostov regions and in Nizhny Novgorod, Omsk, Perm, Yaroslavl, Novorossiysk, Izhevsk and the city of St. Petersburg.

**Flexible business model securing a high level of utilization of our production capacity to construct large scale residential developments in a short period of time.** We believe that we have the ability to construct housing on a significantly larger scale than the majority of our competitors. This production capacity allows us to have a short construction cycle and be engaged in the development of a significant number of properties at the same time, so that our portfolio encompasses a large number of residential developments at various stages of execution. Our production capacity also allows us to supply housing construction services (*i.e.* to act as a building contractor) to the federal and regional governments and to other developers, which provides us with significant flexibility to mitigate the negative effect of temporary decreases in market demand for housing, including the decrease resulting from the recent economic downturn. While such governmental contracts tend to be less profitable than development of our properties, they allow us to absorb a portion of our fixed costs and increase the level of utilization of our production facilities. In addition, as a result of the high volume of our development and construction projects and the strong long-term relationship that we have with our suppliers and subcontractors, we are able to achieve significant economies of scale in our purchases of materials and retention of services.

**Strong brand recognition, a well-established reputation and long-standing relationships with governmental authorities.** We have been operating in the Russian real estate market since 1994. We believe that we have strong brand recognition in the Russian real estate market, particularly in the Moscow Metropolitan Area. We believe that our reputation is based largely on the successful completion of our projects in Russia in a timely and cost-efficient manner. Our experience has allowed us to continue to maintain long-standing relationships with governmental authorities and to accumulate extensive know-how with respect to federal and local real estate regulations and procedures. We have also completed, at the request of government authorities in the Moscow Metropolitan Area, developments that were unfinished due to the bankruptcy of the initial developer.

**Experienced and dedicated management team enhanced by a strong board of directors.** Our senior management team has significant experience in the Russian real estate market with an average of over 21 years' relevant experience. The Nafta Moskva Group, our Major Shareholder, helped us further strengthen our management team. A number of our officers, including our Chief Financial Officer, are former employees of the Nafta Moskva Group and bring significant expertise to their positions at the Company. Our Chief Executive Officer, however, is not affiliated with our major shareholder, which helps to ensure that policies of our management will be independent from those of our major shareholder. In addition, three members of our Board of Directors are Independent Directors under international standards (eight board members are independent directors under the criteria set out in the Joint Stock Companies Law), who have substantial international experience as well as experience in the Russian real estate and finance industries. We believe that our management team's expertise enables us to fully capture attractive opportunities presented by the Russian real estate market.

## **Strategy**

**Focus on development of the mass-market residential real estate.** We believe that our focus on development of the mass-market residential real estate is the optimal strategy for us to capitalize on recovery of the residential real estate market, which began in the end of 2009. Our industrial and construction facilities with a large capacity to produce prefabricated reinforced concrete panel buildings, which are the most common type of mass-market housing in Russia, allow us to complete projects in a timely and cost efficient manner and meet the growing demand for economy class housing. We intend to continue to enhance and modernize our manufacturing facilities in order to retain our leading position in the mass-market real estate segment. We believe that our focus on development of mass-market housing and utilization of our industrial and construction facilities gives us an important strategic advantage, because concrete panel production capacity in the Russian market in general, and in the Moscow Metropolitan Area, in particular, is quite limited. Our reputation of a high-quality developer and experience that we have gained in over 15 years of developing economy-class residential properties, primarily in the Moscow Metropolitan Area, places us in a strong position to benefit from the future market growth.

**Focus on the Moscow Metropolitan Area.** According to Rosstat, the Moscow Metropolitan Area had the highest real estate prices and the highest average disposable income per capita in Russia in 2010. Development rights to properties in the Moscow Metropolitan Area comprise the most significant part of our real estate portfolio. As of June 30, 2011, approximately 87.3% of our land bank by Market Value is concentrated in this region. We believe that in the Moscow Metropolitan Area we have the

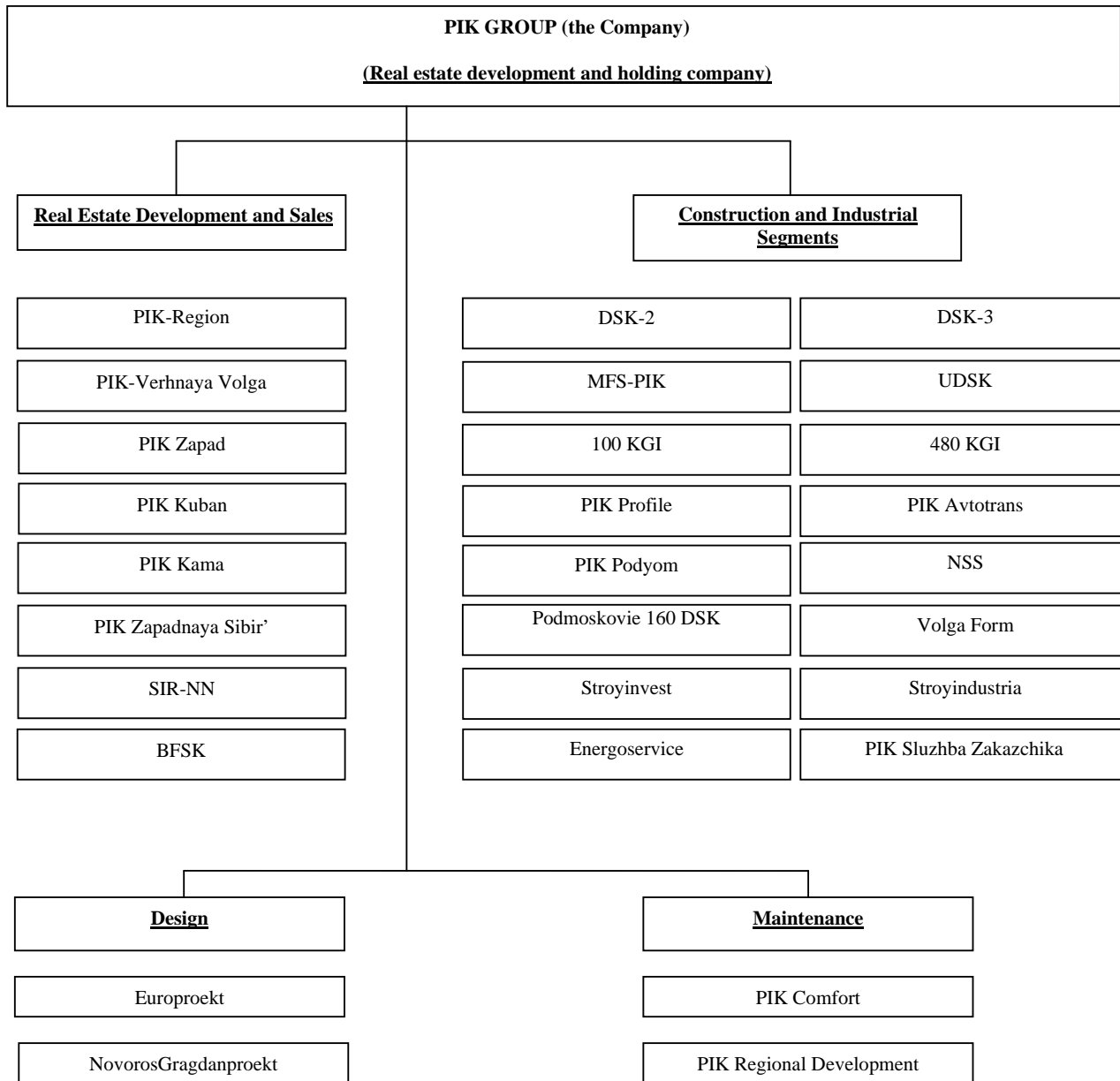
ability to construct housing on a significantly larger scale than the majority of our competitors. High production capacity and diversified portfolio of properties in this region make the Moscow Metropolitan Area a key driver of our growth in the medium-term.

***Optimization of the land bank structure.*** Our large and diversified land bank is an important source of our growth. We will remain focused on the development of residential properties in the Moscow Metropolitan Area. We will continue to optimize our projects portfolio through selective acquisitions of development rights in the Moscow Metropolitan Area in a disciplined way. With a view to the monetization of our existing land bank, we also plan to take steps to increase the value of our regional real estate developments as well as our non-core commercial and elite residential developments. In particular, we plan to selectively reload regional operations to benefit from the expected recovery of the local real estate markets. In addition, we intend to actively use co-investment, partnership, joint venture and similar arrangements to develop certain commercial and elite residential properties. We intend to increase our sales efforts in regions outside of Moscow by either establishing local sales offices or utilizing local brokers.

***Increase of efficiency of our integrated operations with a focus on the full utilization of our production capacity.*** We aim to achieve full utilization of our production capacity. When our facilities or resources are underutilized as a result of insufficient volume of our own development projects, we use such free capacity to produce construction materials and supply construction services to the Russian federal, regional governments and other developers. In the medium-term, we plan to construct approximately one million square meters of housing per year on our development sites and use all production capacity that is not utilized by our development segment to supply construction services to third parties. As volumes of construction on our development sites continue to grow, we will be reducing the share of construction services provided to third parties and concentrate on development of our own properties. We expect that it will allow us to increase our profit margins without a need to make capital investments into acquisition of additional industrial facilities. We also intend to improve our operational efficiency by applying continuous cost control along the entire value chain using enhanced project management tools and risk management systems.

## **Corporate Structure**

The diagram below sets forth our corporate structure showing our principal subsidiaries.





The activities of our principal subsidiaries are set out in the table below:

<b>Subsidiary name</b>	<b>Country of Incorporation</b>	<b>Summary of primary activities</b>	<b>Effective Ownership<sup>(1)</sup></b> %
PIK-Region .....	Russia	Real estate development	100.0
MFS-PIK .....	Russia	General contractor	100.0
DSK-2 <sup>(2)</sup> .....	Russia	General contractor, industrial production	98.0
DSK-3 <sup>(3)</sup> .....	Russia	General contractor, industrial production	87.0
Viniso Investments Limited <sup>(4)</sup> .....	Cyprus	Construction management	75.0
100 KGI <sup>(5)</sup> .....	Russia	General contractor, industrial production	92.0
480 KGI .....	Russia	General contractor, industrial production	100.0

Notes:

- (1) As of the date of this Information Memorandum.
- (2) The remaining 2% participation interest in DSK-2 is held by a large and diverse group of legal entities and private individuals not affiliated with us.
- (3) The remaining 13% participation interest in DSK-3 is held by a large and diverse group of legal entities and private individuals not affiliated with us.
- (4) The remaining 25% participation interest in Viniso Investments Limited is held by EMPL Limited (Singapore), being our partner under a joint venture agreement with GIC foundation.
- (5) The remaining 8% participation interest in 100 KGI is held by a large and diverse group of private individuals not affiliated with us.

The Company was incorporated as an open joint stock company under the laws of the Russian Federation on September 20, 1994. The Company was registered with the Ministry of Taxes and Levies of the Russian Federation under the main state registration number (OGRN) 1027739137084 on August 30, 2002. The Company's main executive offices are located at 19 Barrikadnaya Street, building 1, Moscow 123242, Russian Federation, its telephone number is +7 495 505-9733, and its Internet address is [www.pik-group.com](http://www.pik-group.com). Information posted on the Company's websites and on those of its affiliates is not a part of this Information Memorandum.

### **Real Estate Development Segment**

Our real estate development activity in the Moscow Metropolitan Area is directly managed by the Company. Several regional subsidiaries, managed directly by the Company, are engaged in development activity in other regions of Russia. These entities find and access land sites and development opportunities, procure state permissions and approvals and hold development rights. As of June 30, 2011, we had approximately five employees responsible for land acquisition and obtaining state permissions and approvals. As of June 30, 2011, we had a substantial real property portfolio of approximately 10.1 million square meters of unsold net sellable area. As of June 30, 2011, approximately 10.1% of unsold net sellable area attributable to us was located in Moscow (51.3% by Market Value), approximately 36.3% (35.9% by Market Value) was located in the Moscow region and approximately 53.6% (12.7% by Market Value) was located in other regions of Russia, including the Kaliningrad, Kaluga and Rostov regions and in Nizhny Novgorod, Omsk, Perm, Yaroslavl, Novorossiysk, Izhevsk and St. Petersburg.

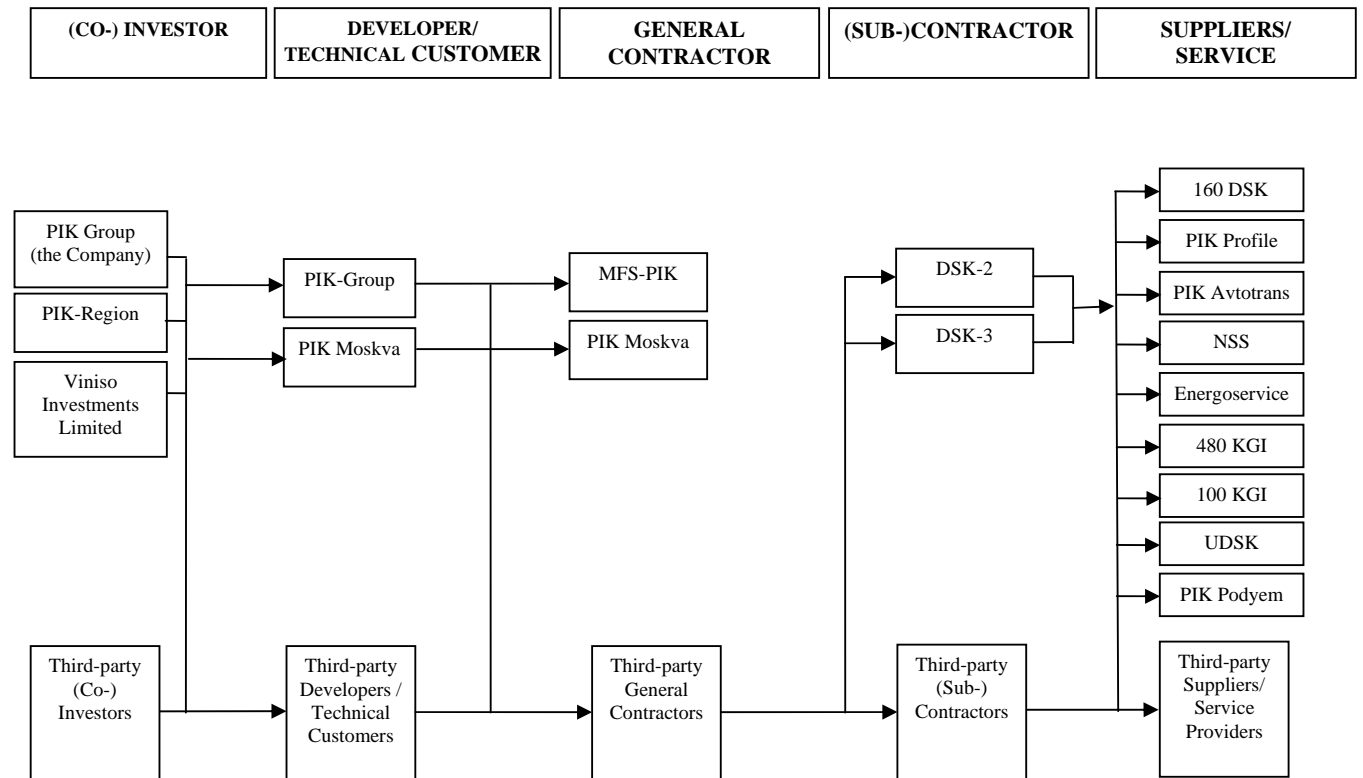
In total, we completed construction of approximately 813 thousand square meters, 884 thousand square meters, 739 thousand square meters and 354 thousand square meters of housing (including construction performed for federal and local authorities and other developers) in 2008, 2009, 2010 and in the first half of 2011, respectively. Approximately 621 thousand square meters (76% of the total volume), 732 thousand square meters (83% of the total volume), 375 thousand square meters (51% of the total volume) and 299 thousand square meters (84% of the total volume) were constructed by our real estate development segment and transferred to our customers in 2008, 2009 and 2010 and in the first half of 2011, respectively. These real estate units have been or will be sold to our customers.

One of our key competitive strengths is our capability to produce large amounts of construction and construction materials, including reinforced concrete panels, for our own projects, which allows us to plan and maintain a significant number of

development projects. Our production capacity allows us to cover our own needs as well as to supply construction services to other developers. See “— Construction Segment.”

Our real estate development activities comprise all stages of development, including the identification of development opportunities and the performance of feasibility studies (which are undertaken in some cases with the assistance of international advisors), obtaining development rights from the relevant municipal and regional authorities or third parties, preparation of project designs, obtaining permits for construction of our developments, marketing our properties to potential purchasers. Our project management system allows for flexibility and control of the entire development process. As a result, we believe we are better suited than our competitors to respond quickly to changes in demand in the residential real estate market and to efficiently manage our expenses.

The diagram below illustrates our integrated development and construction process:



**Overview of the Development Process**

*Obtaining development rights*

We acquire development rights primarily by entering into investment contracts or separate arrangements with municipal and regional governments. These contracts typically provide for the grant of a short-term land lease for the purpose of carrying out design and construction on the relevant land plot. If there is already an existing structure on the site, we are first required to obtain ownership title to the structure before taking over the existing land lease agreement. In cases where we purchase rights under an existing lease and the proposed area of our new building is larger than that of the existing structure, we are required to enter into a new land lease. Depending on our development plans, the permitted use of the land underlying our future development may also need to be amended in the land lease.

The term of an investment contract is typically one and a half to three years and the term of the corresponding lease agreement is typically 11 months to three years depending on the size of the project and may be extended in certain cases. The investment contract sets out the terms upon which we carry out construction and specifies our share and share of the relevant governmental entity in the development upon completion of the project. In most cases, an investment contract requires a certain portion of the project to be allocated to the relevant governmental entity upon completion or that monetary compensation be provided to such governmental entity. For example, with respect to investment contracts entered into with the Moscow Government, the city of Moscow generally retains an interest of up to 30% of the development, and, to acquire this interest, we must compensate the Moscow Government with the equivalent of up to 30% of the total cost of the development. The Moscow Government's share may be lower when, pursuant to an investment contract, we agree to incur additional expenditure related to the development (e.g., enhancements to the Moscow city's infrastructure or the construction of other social objects).

We generally become the owner of the completed building or structure, subject to any interest retained by the governmental entity, but we do not become the owner of the underlying land upon which the building or structure is located. We commonly enter into a long-term lease of up to 49 years for the land plot underlying the completed building. Under both short-term and long-term land lease arrangements we are required to make periodic rental payments in accordance with the lease agreement, which may be unilaterally increased by the landlord. See *“Risk Factors — Risks Relating to Our Business — We may be subject to unexpected fluctuations in the rents we pay in respect of leases.”* Upon completion of construction, the land lease agreement with the developer is usually terminated, and the rights to the relevant land plot underlying the completed building are acquired by the Cooperative or a homeowners' partnership (the **“Partnership”**) formed by purchasers of the apartments in such building. See *“Regulation of Real Estate in Russia — Residential Construction — Key Features”*.

Under investment contracts with municipal and regional governments, we may be required to fulfill certain “social obligations” to build certain objects of social infrastructure, such as schools and hospitals, or participate in the development and upgrade of city utility systems. See *“— Urban Planning and Development.”*

Typically, where the governmental entity retains an interest in a development, we will be entitled to less than 100% of the revenues from the lease or sale of the real estate units in such development. However, we may still have a higher portion (typically 100%) of liability for the construction costs of the development. If the governmental entity allows us to buy out its share of the building or structure, the amount to be paid by us for the governmental entity's share of the completed development is intended to reflect the fair market value of the share. The fair market value of the share is determined by a valuation carried out by an appraiser chosen by the governmental entity. Once the valuation has been approved by the governmental entity, we may, subject to its overriding discretion not to sell, acquire its share of the completed development. See *“Risk Factors — Risks Relating to Our Business — Our interest in a development may be reduced by governmental authorities, seeking to increase their interest in certain circumstances, or we may spend more than expected in carrying out certain urban development projects required by such authorities under our investment contracts or otherwise, which could have a material adverse effect on our business, financial condition and results of operations.”*

Rights to enter into an investment contract may be auctioned as part of a competitive tender process held by a governmental entity. In this situation, the scope of the development project is determined by the governmental authority prior to the tender and the tender winner is able to bypass the formal legal approvals process. We may also acquire development rights under an existing investment contract. Where a third party has an existing investment contract, it may assign its rights thereunder to us or enter into a co-investment agreement with us pursuant to which a project is developed by us solely or jointly with the third party. This situation generally arises when the initial party to an investment contract does not have sufficient resources or capacity to complete the development on the terms of the investment contract. At times, we may also allow co-investors to join our own development projects. In addition, we may also obtain development rights by acquiring an existing entity, which owns or leases land or has executed an investment contract with respect to a development.

In certain regions of Russia, we acquire land directly or enter into a long-term lease but are not required to enter into an investment contract to develop the land. Instead, we are required to obtain the relevant permits relating to use and construction from relevant regional and municipal authorities.

In addition, we sometimes acquire shares of participation in existing development projects, primarily in regions outside the Moscow Metropolitan Area, by entering into a co-investment agreement with an unrelated entity acting as an investor.

#### *Assessing development opportunities*

When assessing the feasibility of a potential development opportunity, we consider a range of factors, including:

- *Site assessment:* We carry out a general assessment of the site and its location based upon our knowledge of the area, the market and our appraisal of the surrounding buildings and other developments.
- *Preliminary design:* We explore preliminary design possibilities for a particular development, which will initially be prepared internally or, in some cases, with the assistance of external architects.
- *Estimated cost and value of the development:* In determining whether or not to proceed with a development, we prepare an estimate of the cost required to complete the construction of the development. These estimates are made on the basis of a detailed budget, which will include design and management costs, costs relating to the demolition of existing buildings, and construction work and construction management costs. These costs are updated as the development process progresses. We also estimate the market value of the completed development. We target an investment rate of return of at least 20-30%, assuming no price increases.
- *Potential permitting and regulatory concerns:* We assess the likelihood of obtaining the required permitting, planning, zoning and environmental approvals relating to the development.
- *Environmental assessment:* We assess any environmental regulatory approvals that may be required in connection with the potential development of a site.

If the initial assessment of a development opportunity is approved, we prepare more detailed concept design alternatives. Our own in-house architects prepare the design plans (master planning schemes) for many of our projects, but we subcontract outside architects to design the majority of our large developments. We also commence discussions with the various regional and local authorities at this stage to determine preliminary issues such as potential difficulties relating to the supply of utilities to the relevant site. If we proceed with a development, we may then enter into a co-investment agreement with one or more third parties to provide for their respective participation interests in the development. The master planning scheme for each development must be approved by various federal, regional and local authorities.

#### *Urban planning and development*

Depending on the terms of our investment contracts, we may be required to perform (or make a commitment to perform) specified urban planning and development activities before a construction permit is granted. Urban planning and development requirements can be complex and are normally undertaken in close cooperation with local, regional and federal authorities. This may involve the development of local infrastructure including, for example, constructing kindergartens, schools and hospitals, landscaping adjacent land, improving roads, building water heating stations, and providing utilities access. The general contractor for a given development project is responsible for the supervision of urban planning and development for the land underlying our properties.

#### *Project design*

Once we have made the decision to proceed with a development, architects prepare detailed project design and plans for each building. The majority of our buildings are designed based on common or similar designs. This facilitates the design process and also helps to decrease the construction costs. We also continue the process of obtaining the necessary development approvals and permits from the relevant federal and local authorities.

To meet the evolving preferences of our customers, we invest considerable resources in creating an appropriate design and marketing strategy for each new development, which includes determining the size, style and price range of units. In July 2007, we acquired NovorosGrazhdanproekt, a design and architectural services company, to strengthen our design division. As of June 30, 2011, our in-house design team consisted of approximately 168 employees, including engineers, marketing and sales professionals and architects. This team works with recognized independent architects on the planning and designing of our developments. Their tasks include designing the interior and exterior, drafting plans for the execution of the project, and choosing the finishing construction materials. A team that is responsible for preparing the business plan and budget and assessing the financial viability of the development plan is involved in our development process as well. Our design professionals often plan entire communities consisting of multiple buildings and public infrastructure.

The in-house project design allows us to design our developments on an expedited schedule, receive design approvals relatively quickly and apply our designs across other regions of Russia. Our designs reflect regional demand while utilizing standardized designs and construction processes to the greatest extent possible, which allows volume purchases of materials and components and more efficient use of labor.

### *Financing our development activities*

Although our financing methods vary depending on the property, we generally finance the first stages of the development process, including any initial amounts required to be paid under the investment contract and amounts used to obtain permits and begin construction, with our operating cash flow and with proceeds from our loans and borrowings. To finance our development projects, we may draw down additional funds under credit lines, provided to the Company in order to finance our working capital needs. After construction has begun, we aim to finance further construction primarily with the proceeds from pre-sales of the development's housing units. As a result of recent legislative changes, we are no longer allowed to enter into pre-sale contracts before a construction permit is obtained, unless we use an alternative financial scheme that may be less attractive to our customers. See "*Risk Factors — Risks Relating to Our Business — We are reliant on pre-sales to finance our development projects and our ability to pre-sell apartments may be materially adversely affected by changes in laws regulating residential construction.*" We typically begin the pre-sale phase after we have obtained the construction permit and have completed construction of the foundation and the initial floors of a new building. When the real estate market is stable, as was the case before the recent economic downturn, we may be able to pre-sell nearly all residences in a prefabricated panel apartment building as early as a year before construction is completed. However, at present, as a result of a weaker market following the downturn, this period may be shorter by several months. Generally, our average sales period does not extend beyond the construction period. We aim to have the large majority of our residential units sold by the time construction of our projects is completed. However, for our elite apartment buildings made of poured concrete, the sales phase usually continues for up to several months after construction has been completed.

### *The construction process*

Each of our developments is managed by a general contractor who supervises construction and is also responsible for auxiliary projects such as landscaping and providing utilities and road access. For mass-market developments in the Moscow Metropolitan Area consisting of prefabricated (precast) and/or poured concrete housing, we often act as a general contractor, which provides us with better control over the costs and timing of the construction process and allows us to better allocate resources across our developments. In some cases, however, we will retain a third party to act as general contractor for our large-scale developments and also for projects consisting of customized buildings made of poured concrete, especially when our poured concrete projects are relatively complex or labor intensive. Outside the Moscow Metropolitan Area, we have historically always hired a third party to be the general contractor.

We do not use subcontractors for our prefabricated panel building projects in the Moscow Metropolitan Area. In other regions, we often outsource panel production and a third party contractor will assemble the panels on-site. Most of the buildings assembled by DSK-2 and DSK-3 are "shell and core" buildings. This means that DSK-2 and DSK-3 assemble the paneled housing and also wire the building for electricity, install elevators, windows and front doors, and plaster ceilings and walls, but each apartment owner is then responsible for the apartment fit-out, including the installation of flooring, inside doors, kitchen cabinets, appliances and light fixtures. In some cases, however, our investment contracts with the federal or regional governmental authorities provide that we fit-out a certain number of apartments in our prefabricated buildings. In such instances, DSK-2 and DSK-3 will purchase and install all required equipment and furnishings.

We have adopted quality control procedures to help ensure that our projects meet certain quality standards. For example, a special committee consisting of representatives of various group companies selects all general contractors and subcontractors. General contractors and subcontractors are selected based on such factors as bid amount, time projected to complete the work and the quality of materials to be used by the contractor. The contractor must also have a good business reputation and possess all relevant certificates and licenses, required expertise, technical and personnel resources.

Upon completion of construction, all regulatory authorities involved in the development process inspect the completed development to ensure that the general contractor and we have complied with the terms and conditions of any federal and local approvals and regulations. Once the inspection process, known as state commissioning, in respect of a newly constructed property is completed, we become legally entitled to operate and use the property. We recognize revenue from the sales of apartments in a building upon its acceptance by the State Commission. At this stage, we start the preparation of all documents necessary to register the ownership rights to the real estate units and transfer them to purchasers.

### ***Land Bank***

We have a large and diversified land bank. As of June 30, 2011, we had a substantial land bank of approximately 10.1 million square meters of unsold net sellable area. As of June 30, 2011, approximately 10.1% of unsold net sellable area attributable to

us was located in Moscow (51.3% by Market Value), approximately 36.3% (35.9% by Market Value) was located in the Moscow region and approximately 53.6% (12.7% by Market Value) was located in other regions of Russia, including the Kaliningrad, Kaluga and Rostov regions and in Nizhny Novgorod, Omsk, Perm, Yaroslavl, Novorossiysk, Izhevsk and St. Petersburg.

### ***Building Types***

We specialize in the construction of several standard types of prefabricated (precast) panel residential buildings and individually designed poured concrete residential buildings. DSK-2, DSK-3 and 100 KGI each produce a different series of panel buildings, which allows us to develop projects with a variety of building types, unlike many of our competitors. Prefabricated panel housing is significantly less expensive and can be built more rapidly than poured concrete buildings. Panel housing can also be constructed in severe winter temperatures, unlike poured concrete housing. On the other hand, poured concrete housing allows for maximum flexibility in design. Generally, it takes up to six months to construct the above-ground portion of a prefabricated panel building and it takes up to 18 months to construct a poured concrete building.

We construct the following types of buildings:

#### *KOPE, KOPE-M Parus and KOPE Tower*

KOPE (“prefabricated building elements”) series panel residential buildings are currently the tallest of the panel apartment buildings that we construct. Each KOPE building (a standalone building or a section of a larger residential compound) has an average floor space of approximately 5,000 square meters. The specifications of these apartment buildings can be tailored to specific planning decisions for a particular building or development, depending on a variety of factors such as the location of the building and customer demand. We produce all concrete panels for KOPE series buildings at our DSK-2 plant.

The concrete for KOPE panels is produced with concrete mixing equipment manufactured in Finland, which was installed at our DSK-2 factory in 2001. KOPE buildings use triple-layered external wall panels that satisfy Moscow’s energy saving requirements. The middle layer is foam insulation, which ensures the heating efficiency of KOPE buildings. We use triple-glazed windows and balcony doors, which are produced using German equipment and components and which have special valves allowing apartments to be ventilated without opening windows.

In addition, each of our KOPE buildings has the following features: (i) plastic hot and cold water-pipes, which simplify the assembly and disassembly processes and lower the content of toxic iron oxide in drinking water; (ii) protective disconnectors in electric wiring, which reduce electrical and audio equipment failure due to surges in voltage and a unique touch-sensitive system which significantly increases safety, especially for children; (iii) convectors with thermo-regulators from leading producers, which increase the reliability of the heating system of the buildings and allows for optimal heating efficiency in apartments; (iv) high quality water and electricity meters that are built into the apartments; and (v) since 2002, copper wiring instead of aluminum wiring, which reduces susceptibility to fires.

In 2003, DSK-2 developed a modernized series of apartment buildings in the KOPE-M (“M” meaning “modernized”) “Parus” series in conjunction with Mosproekt. Parus buildings have a number of features that differentiate them from their predecessors, including: (i) bay windows, which have improved the outer appearance of the building and increased the floor space of the apartments; (ii) spacious glass balconies, which have improved the frontage of the building; (iii) increased balcony size (up to 4.35 meters); and (iv) noise-proofed flooring.

In 2007, DSK-2 began production of modernized apartment buildings of the new KOPE Tower series (“**Tower**”). Construction of the first Tower building was completed in 2008 in Khimki, in the Moscow region. These buildings have an average floor space of approximately 11,600 square meters and can be built up to 25 stories. Due to the increased number of stories and more efficient layout of the apartments on each floor, the net sellable area of a Tower building is approximately twice the net sellable area of a building of other KOPE series. However, Tower buildings, unlike buildings of other KOPE series, cannot be blocked with other buildings to form a larger residential compound. Tower design, therefore, is appropriate for land plots with a small footprint.

The new design also provides for the construction of underground parking to be connected to the stairway and elevator systems of the building. Other features of Tower buildings that distinguish them from previous KOPE designs include (i) increased floor space of the apartments; (ii) more spacious kitchens and closets; (iii) two spacious glass balconies in each three-bedroom

apartment and (iv) an additional bathroom in two- and three-bedroom apartments. Similarly to KOPE-M Parus buildings, spacious glass balconies improve the appearance of the frontage of the building.

### *P3M, P3M-7/23*

The buildings of the P3M series were developed by Mosproekt. The buildings are residential complexes consisting of four-apartment sections with one-, two-, three- or four-room apartments. P3M buildings can be built up to 23 stories and have an average floor space of approximately 6,600 square meters. Each floor of a block section has eight apartments. Due to the layout of P3M buildings, it is possible to create various types of apartments using modular elements that allow apartments to be connected together in a number of ways. As a result, P3M buildings can have a variety of facades with regularly alternating balconies, railings and colored panels. We produce all concrete panels for our P3M buildings at our DSK-3 plant.

The buildings have been designed in accordance with modern housing standards, with increased comfort for the homeowner. Each apartment has a comfortable entryway area, a combined kitchen and dining room, built-in furniture, fitted cupboards, an electric oven and a balcony. Each apartment also has a newly designed bathroom with a separate lavatory area and a large-sized bathtub, as well as cupboard space and adequate space for kitchen equipment.

Since 2004, DSK-3 has been producing P3M-7/23 series 23-story buildings with advanced layout solutions and new architectural facade concepts. P3M buildings of different heights and different series may be combined using both flat and raised facades that add to the variety of the types of apartments along the vertical line of the building.

In the medium-term, we plan to begin production of our new P3M-8/23 series buildings, which will permit us to construct housing at certain sites where there is a limited footprint. These buildings can have an angular form and can face any direction. In addition to providing for more compact construction, this design allows for increased floor area of the apartments.

### *Series 111*

This series of concrete panel housing was first developed by the Russian Ministry of Defense and was widely used to construct buildings to house military personnel. This series has since been modernized and is now widely used to construct private housing. Series 111 buildings can be built up to 17 stories and have an average floor space of 3,400 square meters. Building specifications may be adapted to the specific planning requirements for each structure depending on the location of the project and customer demand. We produce all concrete panels for our series 111 buildings at our 100 KGI and 480 KGI plants.

Series 111 buildings use triple-layered external wall panels that satisfy Moscow's energy saving requirements. We also use triple-glazed windows and balcony doors manufactured using German equipment and components that have special valves allowing apartments to be ventilated without opening windows.

### *Poured Concrete*

In addition to prefabricated paneled buildings, we produce poured concrete buildings. We started development of poured concrete buildings in 1999. These buildings are planned on an individual basis and therefore allow for greater customization of building design and apartment layouts. In poured concrete construction, moulds are put in place and concrete is poured into the moulds. Typically, foundation thickness for our poured concrete buildings is approximately 600 millimeters, the thickness of internal walls is approximately 200 millimeters and the thickness of external walls (with heat insulation) is approximately 500 millimeters, depending upon the level of reinforcement. All of the steel reinforcement, openings for doors and windows and electrical and plumbing elements must be in place before the concrete is poured.

In 2010, we produced approximately 739 thousand square meters of housing in the Moscow Metropolitan Area and approximately 530 thousand square meters of housing in other regions across Russia, using poured concrete technology. Although this method of construction is primarily used for elite housing in the Moscow Metropolitan Area, it is also used on a larger scale in various Russian regions where there are no nearby facilities for producing concrete panels.

SMKD is a relatively new method of building construction, which uses prefabricated monolithic frames with a brick facing. The SMKD technology is based upon a carrying frame consisting of three basic concrete elements: (i) support pillars, (ii) pre-stressed beams, and (iii) floor slabs. The "pillar-beam-slab" joints are monolithic. The entire frame is installed without welding. The technology permits for installation of frames with wide spans between pillars allowing the walls to be manufactured from any lightweight construction materials. The storey height has no limitations and depends solely on the flexibility of pillars.

Frames can, therefore, be used in buildings serving various purposes. By altering the cross-sections and the length of pillars and beams, it is possible to vary storey heights and distances between pillars and, thus, to get “bare shell” premises with desired height and space. The SMKD technology enables the construction of 3-4 storeys per month (with average floor area of 300-500 square meters) allowing the construction of a 25-storey building to be completed in 6-9 months (excluding foundation and pre-development works).

The key advantage of the SMKD technology is the reduction of the length and cost of construction. While we currently use the SMD technology exclusively for our development projects in Obninsk (Kaluga region), we believe that the technology will prove to be an optimal solution for our expansion into other Russian regions.

As of June 30, 2011, our annual production capacity of reinforced concrete structures utilized in SMKD construction projects was approximately up to 80,000 square meters.

The following table lists the types of buildings that we have constructed since 2001:

<b>Year</b>	<b>2001 – 2003</b>	<b>2004</b>	<b>2005 - 2007</b>	<b>2008 - 2011</b>
<b>Type of Buildings</b>	KOPE Poured concrete	KOPE KOPE-M Parus Poured concrete	KOPE KOPE-M Parus P3M P3M-7/23 Series 111 Poured concrete	KOPE KOPE-M Parus KOPE Tower P3M P3M-7/23 Series 111 Poured concrete SMKD

### ***Sales and Marketing***

For most of our projects, we begin to market our residences for sale once a construction permit for a development is received. We organize our own promotional campaigns for specific developments as well as brand promotion campaigns. For the year ended December 31, 2010 and during the six months ended June 30, 2011, our advertising and marketing expenses were RUB 154 million and RUB 142 million, respectively.

Marketing and sales of our real estate projects are performed primarily by our own internal sales staff, which focuses exclusively on sales of our developments and aims to build strong relationships with current and potential customers. Our marketing team is also responsible for gathering information on the needs and preferences of potential customers, which forms an important part of our land acquisition strategy and project design activities.

We currently have a centralized sales office as well as a call center at our headquarters in Moscow and a number of front offices at the major construction sites. We began to prepare showrooms on or near each of our construction sites. The showrooms include a model apartment, outfitted with interior finishings, appliances and furniture. The showroom is staffed by our marketing and sales personnel who answer questions and invite customers for a tour of the model apartment. Our marketing and sales personnel receive substantial training in finding target homebuyers, customer service, and possess detailed information on facilities services (if applicable), construction schedules and building plans. We believe that this results in a sales force with extensive knowledge of our products and related services. In all phases of our marketing efforts, we emphasize our commitment to on-time delivery of residences that are constructed with high-quality materials. We also have special promotional events when we launch new developments.

We use multiple channels to market our residences, such as on-site billboards, the Internet, cross street banners, distribution of leaflets in neighboring areas, general and specialized press, radio and television, and commercial exhibitions. The focus of our advertising efforts is to attract buyers to specific apartment developments through Internet advertisement and cross street banners.

Sales and marketing of residences in our developments in the Moscow Metropolitan Area are primarily carried out by the Company. Other entities within our group are mainly engaged in sales in marketing of our residences in the regions outside the Moscow Metropolitan Area. In addition, we may use local brokers and real estate agents to market a portion of our properties because of the large amount of residences that we construct. We have longstanding relationships with the brokers and real estate agencies. However, brokers and real estate agents accounted for sales of less than 1% of our residence sales during 2009 and 2010.



In an effort to reduce our financial exposure, we generally pre-sell as many residences in our prefabricated panel buildings as possible when launching a new development. For this purpose, we focus our marketing and selling efforts on such development at early stages of construction. Generally, our average sales period does not extend beyond the construction period. We aim to have the large majority of our residential units sold by the time construction of our projects is completed. However, for our elite apartment buildings made of poured concrete, the sales phase usually continues for up to several months after construction has been completed.

As a result of recent legislative changes, we are no longer allowed to directly enter into pre-sale contracts with private individuals before a construction permit is obtained. Therefore, we assist private individuals who intend to invest in our development projects to establish the Cooperative. Upon formation of the Cooperative, private investors become its members and contribute their funds to the Cooperative, which, in turn, invests received funds in construction on the basis of co-investment agreements. Investments made by the Cooperative are not subject to regulation by the Cost Sharing Law. See *“Risk Factors — Risks Relating to Our Business — We are reliant on pre-sales to finance our development projects and our ability to pre-sell apartments may be materially adversely affected by changes in laws regulating residential construction.”*

Recently adopted Russian legislation offers statutory protections to individual investors who purchase pre-sold properties directly from us. Where a purchaser pays for a property that is yet to be completed, by operation of law, the purchaser becomes a pledgee of a part of the land plot and construction in progress proportional to the purchaser’s investment. We have historically experienced a low rate of canceled sales.

We typically begin the pre-sale phase after we have started construction of the foundation and the initial floors of a new building, so that our customers may have greater assurance that its construction will be completed. When the real estate market is stable, as was the case before the recent economic downturn, we may be able to pre-sell nearly all residences in a prefabricated panel apartment building as early as a year before construction is completed. However, at present, as a result of a weaker market following the economic downturn, this period may be shorter by several months. No assurance can be given, however, that the same pre-sale and early payment rates will be maintained in the future.

We have historically experienced a low rate of cancelled sales. In the last three years, less than 1% of our contracted pre-sales have been canceled. We take a proactive approach in default prevention by working closely with our customers at risk of default to find alternative solutions, including extension of the repayment term or the reduction of the principal owed by substituting the purchased unit with a smaller unit. In the event of default, we are entitled to terminate the purchase agreement and claim penalty fees. We believe that the transactions, which our subsidiaries and we enter into with individual investors, are in compliance with the legislation of the Russian Federation. Still, we cannot guarantee that the transactions will not be challenged in the future by the relevant authorities. For more information, see *“Risk Factors — Risks Relating to Our Business — We are subject to numerous risks inherent to real estate development.”*

In an effort to satisfy our working capital needs at an earlier stage of construction and reduce our dependence on bank debt, we pre-sell a significant portion of our properties to real estate companies in block transactions. The block purchasers may have a network of offices allowing them to reach a wider customer base and this can assist us in selling large volumes of properties, which may otherwise take longer to sell. We often require, through formal and informal agreements, that these properties be pre-sold at certain prices and that the marketing and sales methods are consistent with our own. Sometimes, we are engaged by block purchasers to carry out the marketing and sales of such residences on their behalf to individual homeowners. Before the recent economic that resulted in a tightened liquidity market, we did not offer properties in block transactions at a discount. In 2009 and in the beginning of 2010, however, we engaged in the Block Sales of apartments to suppliers at a discount of approximately 10-15% to then current market price, which was a one-off measure to overcome severe liquidity constraints at that time. The aggregate amount of such block transactions was approximately RUB 17.4 billion.

In 2008 and 2009, in an effort to increase our operating cash flow to meet our working capital needs and finance a portion of our fixed costs, we sold a significant portion of residences in our developments to federal and local authorities. In particular, in November 2009, based on the results of a tender organized by the Russian federal government, we entered into a contract with the Russian Ministry of Defense for the sale of approximately 7,000 square meters of housing in the Kaliningrad region.

### ***Mortgage Financing for Purchasers***

Purchasers of our properties, including those purchasing pre-sale properties, may arrange for mortgage financing with banks. As part of our sales efforts, we offer comprehensive mortgage consulting assistance to our customers at no charge. To broaden the market for our residential developments, we have entered into arrangements with large national and regional banks in

Russia, such as Gazprombank, VTB 24, Sberbank, Rosbank, Svyaz-Bank, Bank Vozrozhdenie, Uralsib, Housing Finance Bank, Investtradebank, Baltica Bank and Nordea Bank, which provide mortgage financing programs tailored to the needs of our customers. We do not charge any fee for customers to access these mortgages.

Russian banks typically provide mortgage loans to finance purchases of completed residencies (primarily, in the secondary market) to qualifying customers in various regions of Russia. Lenders financing acquisitions of unfinished properties commonly require mortgage over additional real property (other than the acquired unfinished property) to secure these loans. In addition, several banks, including Gazprombank, VTB 24, Sberbank, Bank Vozrozhdenie, Uralsib, Housing Finance Bank, Investtradebank and Baltica Bank, offer our customers pre-mortgage loans (*i.e.*, loans for purchases of unfinished properties under construction, which are secured by the pledge of the borrower's rights to unfinished property with no mortgage over any other real property owned by the borrower). Pre-mortgage loans are only available to purchasers of apartments in selected developments, which are commonly specified in our agreement with the lending bank.

Mortgage lending is considerably less prevalent in Russia than in many developed economies. According to the CBR, as of June 2011, the aggregate mortgage debt in Russia stood at RUB 1.2 trillion, or 9.4% of Russia's GDP, as compared to 52% in the EU and 81% in the USA, as of the end of 2008, according to the European Mortgage Federation. Mortgage loans offered by Russian banks to home purchasers typically range from 60% to 90% of the purchase price of the home and have terms from one year to 30 years. Loans are generally offered in Roubles, U.S. dollars or Euros. Currently, the interest rates for mortgage loans generally range from 9.5% to 15% (in Roubles) and from 8% to 13% (in U.S. dollars or Euros). The interest rates depend on the type of loan and such factors as the term of the loan, the borrower's ability to repay and the stage of development of the residential building subject to the mortgage.

The Russian residential mortgages market has been extremely volatile in recent years. It experienced significant growth from 2004 to the first half of 2008. According to the CBR, the aggregate amount of new mortgage loans made to Russian borrowers in 2008 (at the December 31, 2008 RUB/U.S. dollar exchange rate) was approximately USD 25 billion, which is more than twelve times the aggregate amount of new mortgage loans made to Russian borrowers in 2004. However, as a result of the recent economic downturn and deterioration of the mortgage-backed securities markets, the amount of new mortgages in 2009 shrank to USD 6 billion (at the December 31, 2009 RUB/U.S. Dollar exchange rate). In line with this market trend, the share of our apartment sales that was financed by pre-mortgage and mortgage bank loans shrank from approximately 25% in the beginning of 2008 to a negligible amount in 2009 and the first months of 2010.

Since the end of 2009, the Russian residential mortgages market has demonstrated signs of recovery. In December 2009, the Russian bank VTB 24 completed the first placement of Russian mortgage-backed securities since 2008. The federal budget for 2010 included a mortgage market support program, and approximately RUB 250 billion (equivalent to USD 8.3 billion at December 31, 2009 exchange rate) of governmental funds became an additional source of liquidity for mortgages in 2010. Moreover, state-owned Sberbank, VTB and Gazprombank, supported by a subordinated credit facility from VEB, a state banking corporation, and several foreign banks are currently taking steps to re-establish a market for the Russian mortgage backed securities, which could provide mortgage market with additional liquidity and make mortgages more affordable. Effective implementation of these initiatives in 2010 coupled with the overall market recovery contributed to a dynamic growth of mortgage financing volumes in Russia. In 2010, the aggregate amount of new mortgage loans was over USD 12.1 billion (at the December 31, 2010 RUB/USD exchange rate) and exceeded the 2009 annual level. In 2010, the share of our apartment sales financed by mortgage facilities increased to approximately 6.5%.

### **Construction Segment**

The construction segment of our operations includes the construction of reinforced concrete panel housing, production and assembly of prefabricated panel residential buildings, including the construction at our development sites and construction services provided to third parties.

While profit margin of construction segment is lower than the profit margin of our real estate development segment, revenues from sales of our construction services allow us to absorb a portion of our fixed costs. Suspended completion of a number of our development projects due to low demand for residential properties during the recent economic downturn resulted in reduced internal demand for construction services and underutilization of our production facilities. Supply of construction services to third parties allowed us to increase the utilization of our production facilities. In the medium-term, we plan to achieve full utilization of our production facilities and construct over 1,350 thousand square meters of housing per year by using all our production capacity that is not utilized in development activities to supply construction services to third parties. Also, cooperation with federal and local authorities aimed at social housing construction enables us to support all of our

development activity and helps us to maintain a positive relationship with authorities of the Russian Federation and the regions where we operate.

We provide construction services as a general contractor and a subcontractor to the federal government, regional governments and other developers. As a general contractor (or a subcontractor), we constructed 192 thousand square meters (or 23.6% of our total construction volume), 152 thousand square meters (or 17.2% of our total construction volume), 364 thousand square meters (or 49.3% of our total construction volume) and 55 thousand square meters (or 15.5% of our total construction volume) in 2008, 2009 and 2010 and for the six months ended June 30, 2011, respectively, for third parties, including the Russian Ministry of Defense and the Moscow Government. Generally, we provide construction services by producing and assembling “shell and core” reinforced concrete panel housing for federal and regional authorities and for other developers. Our services include the delivery of reinforced concrete panels to sites in Moscow and the assembly of buildings. We also install windows, facades and electrical wiring for the buildings. If we have been asked to fit-out any apartments, DSK-2 and DSK-3 purchase and install all required equipment and furnishings.

DSK-2 and DSK-3 often act as subcontractors to a general contractor selected by the city of Moscow to carry out the housing construction for the city of Moscow. We expect that DSK-2 and DSK-3 will continue to perform construction works for the city of Moscow in the future. DSK-2 and DSK-3 have the capacity to produce approximately 940 thousand square meters of residential housing per year. In January 2010, we were engaged to carry out economy class housing construction for the Russian Ministry of Defense in the city of Podolsk in the Moscow region. CJSC Mosstroyemkhanizaciya-5, acting as a general contractor of the project, selected us as to act a subcontractor and entered into a construction services agreement with us. Pursuant to the agreement, we have committed to complete construction of 28 buildings with a net sellable area of 265 thousand square meters (an equivalent of approximately 4,000 units) on the development site, including 16 buildings by the end of 2010 and 12 buildings by the end of 2011. According to the preliminary master planning scheme of the development, the estimated size of the entire project is approximately 1,000 thousand square meters of housing.

### **Industrial Segment**

The industrial segment of our operations includes the production of reinforced concrete panels, window frames and other construction materials.

We own two of the three reinforced concrete panel manufacturers in Moscow, DSK-2 and DSK-3. We also own 100 KGI, which is a reinforced concrete panel manufacturer located in the Moscow region, as well as NSS and 480 KGI. NSS is a manufacturer of concrete, reinforced concrete elements and panels and other construction materials located in Obninsk, which is located close to the border of the Moscow and Kaluga regions. 480 KGI is a manufacturer of prefabricated panel housing located in Alexin, a town in the Tula region. We believe that our production capacity of reinforced concrete panels is among the largest in the Moscow Metropolitan Area.

DSK-2 was founded in 1962 and was acquired by us in 2001. At present, DSK-2 is the third largest residential construction company in Moscow and, until 2006, it had the capacity to produce approximately 350 thousand square meters of housing per year. In 2006, DSK-2 increased production capacity from 350 thousand square meters to 450,000 square meters per year. By 2009, it further increased production capacity to 460,000 square meters per year. DSK-2's construction processes meet international standard ISO 9001-2001. As of June 30, 2011, DSK-2 had 3,035 employees.

DSK-3 was founded in 1964 and was acquired by us in 2005. DSK-3 is the second largest residential construction company in Moscow and has the capacity to produce approximately 480,000 square meters of housing per year. As of June 30, 2011, DSK-3 had 2,739 employees.

100 KGI was founded in 1965 and was acquired by us in 2005. Current production capacity of 100 KGI is 165 thousand square meters of housing per year. As of June 30, 2011, 100 KGI had 488 employees. The predecessors of NSS were founded in the late 1960's, acquired by us in 2007 and merged into NSS in 2008. In 2008, at NSS we launched the production unit for elements of cast-in-place and prefabricated (pre-cast) framed constructions. NSS has the capacity to produce approximately 80 thousand square meters of precast framed construction elements and approximately 150 thousand cubic meters of ready-mixed concrete per year. As of June 30, 2010, NSS had 396 employees.

480 KGI was founded in 1945 and was acquired by us in 2007. 480 KGI has the capacity to produce approximately 165 thousand square meters of housing per year. As of June 30, 2011, 480 KGI had 830 employees.

All panels used for our prefabricated concrete panel developments in the Moscow Metropolitan Area are manufactured by DSK-2, DSK-3 and 100 KGI. These entities also produce a limited amount of reinforced concrete panels for areas outside the Moscow Metropolitan Area; however, high transportation costs generally mean that we source concrete panels locally. The window frames for all our concrete panel housing are manufactured by PIK Profile, which is based at the DSK-2 plant. Our subsidiary PIK Technology provides the aluminum facades for our buildings and PIK Podyom assembles the elevators for most of our developments in the Moscow Metropolitan Area.

In addition, our subsidiary Podmoskovie 160 DSK manufactures and assembles individual wood-framed houses at small sites in the Moscow Metropolitan Area.

As of June 30, 2011, the level of utilization of production capacity of DSK-2 and DSK-3 was approximately 80%. Utilization of production capacity of other industrial facilities also remains below 100%, which provides us with an opportunity to increase our construction volumes without making significant capital expenditures in the medium-term.

Before 2009, our industrial and construction segment also included gravel and non-ferrous quarry operator PIK Nerud, which had activities in the Moscow region, Ivanovo region and the Republic of Karelia. We divested PIK Nerud in 2009, which was a part of our strategy to divest non-core operations and generate sufficient funds to complete the debt restructuring process. Currently we purchase gravel, sand and crushed rock that are necessary for the operations of DSK-2, DSK-3 and other industrial facilities in the open market. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations—Disposals.”*

### **Suppliers**

We contract with major suppliers for raw materials and construction materials and equipment used in the construction of our projects, including cement, concrete, crushed rock, gravel, sand and metal. For the years ended December 31, 2008, 2009 and 2010 and for the six months ended June 30, 2011, raw materials have represented on average 10.5%, 3.0%, 2.8% and 6.3%, respectively, of our total costs of sales. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Costs and Efficiency.”*

After the divestment of our raw materials production segment in 2009, we satisfy our requirements of crushed rock, gravel and sand through purchases in the open market. Our largest five suppliers of raw materials in terms of value, are LLC Intertradefinance (sand and crushed rock), LLC Stroitel (sand and crushed rock), Region.Service.RTI (sand and crushed rock), LLC Mechel-Service (metal), OJSC Metallservice (metal), CJSC Eurocement trade (cement) and Santekhprom (ventilation convectors and tube shells). In general, we purchase cement pursuant to medium- to long-term contracts ranging from three months to a year. Generally, we do not make purchases on a spot market. When selecting our suppliers, we have rigorous specifications, which are based not only on the quality and price of the products, but also on the reputation of the suppliers. We also maintain strict quality controls to help ensure that materials conform to specifications prior to their installation.

We work closely with our suppliers, enabling them to schedule their production to meet our demand or notify us in advance in the event they anticipate delays. We have good relationships with our suppliers and have experienced no significant construction delays due to shortages of materials in recent years. We do not maintain significant inventories of construction materials.

As discussed above, we produce reinforced concrete panels, windows, aluminum facades at our own production facilities, which reduces our reliance on outside suppliers of these materials.

### **Other operations**

Through our wholly owned subsidiary PIK Comfort, we provide servicing and maintenance for residential buildings and developments as well as for certain non-residential premises such as shopping centers, underground garages and parking lots. We provide these services for many of our own properties and also for properties developed by third parties. Our objective is to provide servicing and maintenance for every residential property completed by us. In 2010, the total area of properties serviced by us grew approximately by 15.4% to approximately 3,065 thousand square meters compared to approximately 2,655 thousand square meters in 2009. As of June 30, 2011, our facility management and maintenance division had approximately 772 employees.

As of June 30, 2011, we serviced approximately 3,215 million square meters of residential and commercial properties. Most of these properties are located in Moscow (1,160 square meters) and the Moscow region (1,615 square meters), but these figures also include properties located in other regions (440 square meters).

We seek to ensure that all necessary services are provided to the residents and tenants of our serviced properties. For each property, we conduct routine inspections of the buildings, grounds and all plumbing and heating systems. We maintain the water supply, sewage systems and electrical, power and heating supplies. We provide waste removal and clean the common areas and the grounds surrounding the property. If necessary, we also carry out snow removal using our own fleet of specialized vehicles. We also provide security for each building, including video surveillance, access control systems, alarm systems and concierge service. We have 24-hour mobile emergency teams in case of breakdowns in the water, heating or power supplies or the sewage systems.

We provide a number of other management services including retention of title documents, representing residents or the residents' committee in legal proceedings and other matters, collecting fees for utility companies and organizing and supervising contractors. We also organize various accounting documentation, draft and implement building budgets and arrange payment of relevant charges and taxes, including lease payments. In addition, we provide offices in each building for passport registration.

We hold all licenses and certificates necessary for the management and operation of residential buildings, including licenses to operate explosive and fire-hazardous sites and to provide firefighting services and cable television services.

Our other activities also include transportation of ready-mixed concrete and reinforced concrete panels as well as rent of premises in former plants or other buildings located on our development sites, which will be demolished upon obtaining the necessary governmental permits and approvals.

### **Development Projects**

From January 2008 to June 2011 we financed, constructed and sold more than 2.8 million square meters of completed residential real estate, which also includes completion of townships and entire urban neighborhoods. In 2010 and during the first half of 2011, we completed 739 thousand square meters and 354 thousand square meters, respectively, of residential real estate, including housing constructed for federal and local authorities and other developers. As of June 30, 2011, our portfolio of real estate development projects included 100 properties that have been internally approved for a total of 12.9 million square meters of net sellable area attributable to the Company. Net sellable area attributable to the Company (PIK Share) equals the aggregate net sellable area of a particular development multiplied by the size of our share of participation in the development (expressed as a percentage).

Our residential projects include high-rise prefabricated panel apartment buildings, elite apartment buildings in prime locations in Moscow and detached family homes in some of the most prestigious Moscow suburbs. A number of our residential developments in Moscow, including KSRZ on Mantulinskaya Street and the English Town on Mytnaya Street, also include commercial real estate units. This is necessary to provide future residents with a wide range of on-site facilities and services.

### ***Completed Development Projects***

Since our inception in 1994, we have successfully completed over 11 million square meters of net sellable area. In 2008, 2009, 2010 and the first half of 2011, we completed approximately 813 thousand square meters, 884 thousand square meters, 739 thousand square meters and 354 thousand square meters of net sellable area (PIK Share), respectively. These projects were primarily located in the Moscow Metropolitan Area, but also included projects in other regions of Russia, including the Kalingrad, Kaluga, Krasnodar, Nizhny Novgorod, Omsk, Perm, Rostov and Yaroslavl regions.

### ***Ongoing Development Projects***

Our portfolio of real estate development projects as of June 30, 2011 included 100 properties with a total Market Value of approximately USD 2.7 billion according to the Valuation Report. These properties have been internally approved for a total of 12.9 million square meters of net sellable area (PIK Share), including a total of 10.1 million square meters of net sellable area that was unsold as of June 30, 2011. As of June 30, 2011, 23 of our properties were developed jointly with co-investors.

Our portfolio includes properties in various stages of development and, according to the classification provided in the Valuation Report, it is comprised of: (i) properties held as investment (completed and partially sold); (ii) properties in the course of development; and (iii) properties held for development.

Properties held as investment as of June 30, 2011 included 8 properties with an appraised Market Value of approximately USD 34.1 million, which represented approximately 1.3% of the total Market Value of our portfolio. These properties included completed and partially sold properties with a total of 100.9 thousand square meters of PIK Share, of which approximately 21.3 thousand square meters of net sellable area remained unsold.

As of June 30, 2011, we had 44 properties in the course of development with an appraised Market Value of approximately USD 1.3 billion, which represented approximately 49.5% of the total Market Value of our portfolio. These properties, with respect to which we had commenced construction, are intended to be completed in the next eleven years and represented approximately 5,639.5 thousand square meters in net sellable area (PIK Share), as of June 30, 2011.

Properties held for development included 48 properties as of June 30, 2011, with respect to which we had not commenced construction but had already obtained initial permission documentation and investment contracts for such properties, with an appraised Market Value of approximately USD 1.3 billion or approximately 49.3% of the total Market Value of our portfolio. These properties represented approximately 7,142.7 thousand square meters in net sellable area (PIK Share), as of June 30, 2011.

However, we cannot give assurance that any of our projects, particularly those that are in the early stages of development or where we have not commenced construction, will proceed in accordance with our plans or at all. See *“Risk Factors — Risks Relating to Our Business — A number of our projects are in the early stages of development, and we may not be able to complete these projects successfully. In addition, certain projects require execution of formal agreements, such as land lease agreements, which have not yet been entered into or registered with appropriate authorities.”*

As a part of our strategy to reduce the impact of the recent economic downturn on us, we divested certain properties from our regional land bank, including several sites located in St. Petersburg and the Moscow Metropolitan Area, which were at early pre-construction stages of development. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Disposals.”* We have also revised our development plans for certain properties in several regions of Russia, including the Omsk, Yaroslavl, Perm regions and the Republic of Udmurtia, to scale down our participation in these projects (see *“— Optimization of the Regional Land Bank”* below). In addition, we have applied for permission to suspend the development of certain properties for an indefinite period. As a result, the volume of the unsold net sellable area in our project portfolio on June 30, 2011 decreased by 32.1% in comparison with April 1, 2009.

As of June 30, 2011, our 100 properties were located in Moscow, the Moscow region and other regions of Russia. The properties were concentrated in Moscow and the Moscow region, which accounted for approximately 51.3% and 35.9% of the total Market Value of our portfolio, respectively.

The following table sets forth details of our projects by location as of June 30, 2011.

Location	Site Area, hectares	Number of Properties <sup>1</sup>	NSA	Unsold NSA	Market Value
			(PIK Share)		
			thousand sq.m		mln USD
Moscow.....	138.1	27	1,729.0	1,019.2	1,398.4
Moscow region.....	606.8	25	5,242.3	3,668.1	978.5
Izhevsk.....	114.7	1	880.0	880.0	11.3
Kaliningrad region.....	111.6	3	570.8	505.6	45.8
Kaluga region.....	87.7	11	673.0	598.2	96.2
Nizhny Novgorod.....	9.0	3	169.7	80.9	24.3
Novorossiysk.....	61.4	4	646.4	539.6	34.9
Omsk.....	136.1	4	1,154.4	1,154.4	19.4
Perm.....	138.0	3	508.5	454.1	33.1
Rostov region.....	56.2	12	690.4	674.7	42.0
St. Petersburg.....	1.5	1	51.5	51.5	7.1
Yaroslavl.....	52.3	6	567.2	482.1	32.7

<u>Location</u>	<u>Site Area, hectares</u>	<u>Number of Properties<sup>1</sup></u>	<u>NSA (PIK Share)</u>	<u>Unsold NSA</u>	<u>Market Value</u>
				<b>thousand sq.m</b>	<b>mln USD</b>
<b>Total</b> .....	<u>1,513.4</u>	<u>100</u>	<u>12,883.1</u>	<u>10,108.5</u>	<u>2,723.7</u>

Source: the Valuation Report

(1) Parking garages and other required structures were distributed among the valued properties to which they are associated.

The following table sets forth information about our top 14 development projects that were valued by CBRE. These projects represent, in the aggregate, approximately 75.7% of our property portfolio's appraised Market Value. Other than the information relating to the number of properties contained in each project, the data contained in the table has been derived from the Valuation Report.

<u>Project in development</u>	<u>Location</u>	<u>Number of Buildings<sup>1</sup></u>	<u>NSA (PIK Share)</u>	<u>Market Value</u>
			<b>thousand sq.m</b>	<b>mln USD</b>
English Town.....	Moscow	2	71.9	130.5
Novokurkino, Khimki.....	Moscow region	38	831.5	166.8
Yaroslavsky, Mytishi.....	Moscow region	58	834.0	264.4
Mantulinskaya Street 7.....	Moscow	n/a	122.2	360.8
Kommunarka village, Leninsky District.....	Moscow region	n/a	1,078.8	161.3
Moscow, Kuntsevo.....	Moscow	7	166.1	177.4
Sovkhoznaya 11, Khimki.....	Moscow region	25	405.7	193.3
Michurinsky Prospect, blocks 5-6, Ramenki.....	Moscow	n/a	63.8	129.2
Perovskaya Street 66.....	Moscow	n/a	139.0	114.6
Marshala Zakharova Street, possession 7.....	Moscow	n/a	79.2	65.8
Varshavskoye Highway, possession 141.....	Moscow	n/a	130.0	105.0
Mironovskaya Street 46.....	Moscow	n/a	43.3	53.1
Akademika Vinogradova, possession 7.....	Moscow	6	82.8	80.5
South Chertanovo, microdistricts 17-18.....	Moscow	8	87.0	60.5

(1) Parking garages and other required structures were distributed among the valued properties to which they are associated.

### **Description of Our Key Development Projects**

Our major development projects are described below. The Market Value of each of our key projects indicated below is assessed by CBRE as the estimated value of the planned development at completion, less all costs up to completion including a profit margin for the developer (pursuant to CBRE's cost estimate), less any minority stake in the project. For a full discussion of how the Market Value is determined and for more information on the types of costs that are included in CBRE's cost estimate, see the Valuation Report and "— Valuation of Our Properties."

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report.

#### **English Town – Mytnaya Street 13, Moscow**

The English Town elite residential development is located at Mytnaya Street 13, which is between the Garden Ring Road and the Third Ring Road, to the south of central Moscow. This area is very popular among homebuyers and more than 20 embassies are located in the area. Access to the property is convenient by both public and private transport, as it is located in close proximity to Moscow's main roads. The development includes two apartment buildings constructed of poured reinforced concrete: a housing complex consisting of 21 residential sections with an underground parking garage for 1,193 parking spaces and a 18-story tower. Commercial premises will be located on the ground floor of each building to provide on-site facilities and

services to the residents. The development is located on two land plots with the total area of approximately 4.6 hectares. The total net sellable area of the development is 71,861 square meters (PIK Share), including 835 parking spaces (PIK Share). As of June 30, 2011, CBRE assessed the Market Value of our interest in the English Town development at USD 130.5 million (RUB 3,663.9 million).

We obtained construction permits for both buildings in 2006, and began construction of the tower and the housing complex with an underground parking the same year. In 2009, we engaged CJSC Strabag to act as a general contractor and coordinate the construction process. The project is currently in the construction stage of development. Construction works are nearly completed and facade works have been initiated. The underground parking is completed and engineering systems are being installed.

To complete this development project, we need to finish the facade works and obtain the acts of acceptance of the buildings by the State Commission. We expect to complete the construction of the entire project in the second half of 2012.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”*

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 169.1 million (RUB 4,746.3 million), as set out in the Valuation Report.

In 2004, the Moscow Government approved the relocation of the industrial facilities of Avtokombinat No. 32 (a company operating a fleet of trucks and other vehicles) from the land plots underlying the development to the industrial zone in the outskirts of Moscow with a subsequent demolition of the buildings that were used by the industrial facilities. In 2006, the Administration of the Central Administrative Region of Moscow passed a resolution entitling Avtokombinat No. 32 to obtain lease rights to the land plots and construct the residential complex and certain social infrastructure objects on this land.

The Land Resources Department of Moscow and Avtokombinat No. 32 entered into a short-term land lease on July 26, 2006 with respect to two land plots underlying the development. The lease agreement has now technically expired, but continues de-facto due to the parties' continued performance. The owner of the land may terminate the lease based on a termination notice sent three months prior to termination. As the lease period set in the agreement exceeds one year, the lease agreement was registered with the federal registration authority in December 2010. In March 2011, the Moscow city government passed a resolution concerning the investment project at Mytnaya street, as a result of which, in April 2011, the Land Resources Department of Moscow and Avtokombinat No. 32 entered into an addendum to the lease agreement extending the term for the construction of the development through December 2012.

On February 26, 2006, Stroycoresurs, our wholly-owned subsidiary, entered into an investment agreement with Avtokombinat No. 32 and SoftGrant. Pursuant to the terms of the investment agreement, Stroycoresurs committed to perform the construction on the development site and was allocated 70% of the total area of the residential and non-residential premises and 70% of the parking spaces in the development. SoftGrant committed to bear all costs associated with relocation of Avtokombinat No. 32 and construction of social infrastructure objects, and was allocated 15% of the total area of the residential and non-residential premises and 15% of the parking spaces in the development. Avtokombinat No. 32 was allocated 13% of the total area of the residential and non-residential premises and 13% of the parking spaces in the development. On June 1, 2006, we entered into a co-investment agreement with Stroycoresurs, under which we were allocated 70% of the total area of the residential and non-residential premises and 70% of the parking spaces for the project.

The construction permits that were obtained in 2006 expired in September 2009. We will formally apply for the extension of these construction permits, once we obtain a city development plan of the land plot that is currently in the process of approval with the relevant governmental authorities. However, in the absence of the construction permits, governmental authorities may argue that construction-in-progress conducted on the development site is an “unauthorized construction” and seek a court ruling declaring such unauthorized construction to be state property or ordering their demolition and bringing the construction site into the preconstruction condition. See *“Risk Factors — Risks Relating to Our Business — Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and any failure to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements could materially adversely affect our business, financial condition and results of operations.”* While we do not agree with such interpretation of the applicable legal rules, we are not able to predict what decision would be made by the court, should such claim be brought against us.



*Novokurkino – Khimki, Moscow region*

Khimki is located just outside of the Moscow city limits, across the MKAD ring road, at the intersection of the Moscow – St. Petersburg Highway, the Oktyabrskaya railway and the Moscow River. One of Russia's largest airports, Sheremetyevo, is also in the Khimki region not far from the site. We are in the process of development of three adjacent "micro districts" (micro districts 6, 7 and 8) with 14 buildings already completed and sold. According to a revised master planning scheme of the development, the development will consist of 38 buildings in total, including multi-apartment residential buildings each consisting of several sections with an approximate net sellable area of 831,498 square meters (PIK Share) and several parking garages for 4,710 parking spaces (PIK Share). Commercial premises will be located on the ground floor of each building to provide on-site facilities and services to the residents. The revised development plan also provides for construction of several shopping centers and social infrastructure objects. The development is located on a land plot with the total area of approximately 81 hectares. This project was our first large-scale development in the Moscow region and provides for construction of P3M, KOPE-M Parus and KOPE Tower buildings. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Novokurkino development at USD 166.8 million (RUB 4,683.0 million).

The lease rights to the land plot comprising the development site were granted by the Administration of the Khimki District of the Moscow region in 2001. The master planning scheme of the development was approved in 2005, which allowed us to obtain necessary permits, complete construction and sell real estate units in several buildings and parking garages. We have already obtained construction permits for five buildings and initiated their construction. We are currently preparing detailed project design documentation with respect to another five buildings and expect the documentation to be approved and construction permits to be granted by the state authorities in the first half of 2012. In the meantime, we are performing pre-construction works. Eleven buildings are in the process of construction, and we have already obtained the acts of acceptance of the State Commission for 16 buildings.

In order to complete this development project we need to obtain the state approval of the revised master planning scheme of the development and receive an extension of the project completion date, procure the approval of the project design documentation and obtain construction permits for the five buildings, finish the construction of these buildings and obtain the acts of acceptance of the buildings by the State Commission. At a later stage, we will also need to prepare and obtain state approvals of the project design documentation and construction permits, and begin the construction of the remaining buildings.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and to procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See "*Regulation of the Real Estate in Russia.*" The project is expected to be completed in the second half of 2017.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 586.1 million (RUB 16,454.4 million), as set out in the Valuation Report.

On August 13, 2001, Novokurkino, our wholly-owned subsidiary, and the Administration of the Khimki District of the Moscow region entered into a long-term land lease agreement with respect to the land plot underlying the development, which expires in 2052. On May 15, 2003, Novokurkino, the Administration of the Khimki District of the Moscow region and the Construction Ministry of the Moscow region and the Ministry of Property Relations of the Moscow region entered into an investment contract with respect to the development. According to the investment contract, 100% of residential buildings and non-residential premises of the development are allocated to Novokurkino, because Novokurkino satisfied its duty to allocate 6,200 square meters of non-residential premises to the Administration of the Moscow region by assignment of its interest in another development project. The investment contract required the construction to be completed by the end of 2008. We have initiated the negotiations with the Moscow region authorities to revise the provisions of the investment contract to reflect the changes in the master planning scheme of the development and extend the completion date. We believe that technical expiration of the investment contract will not have a material adverse effect on our business, financial condition and results of operations, because the lease agreement for the land plot underlying the development may not be terminated as a result of termination of the investment contract.

On October 15, 2003, PIK-Region, a subsidiary of the Company, entered into a co-investment agreement with Novokurkino (as amended on January 28, 2004, March 19, 2004 and October 1, 2009) for the joint financing and development of the project. Pursuant to the agreement, PIK-Region was allocated 100% of the total area of the residential and non-residential premises in the buildings to be constructed on the development site.

*Yaroslavsky – Mytischy, Moscow region*

The city of Mytischy in the Moscow region is located next to the MKAD ring road. Mytischy is one of the largest satellite cities of Moscow with a population of approximately 164,000. Our development in Mytischy is conveniently located in the close proximity of Yaroslavskoye and Ostashkovskoye highways and can be easily accessed by both public and private transport. We intend to develop two adjacent “micro districts” (micro districts 15 and 16) and construct 58 buildings, including economy-class residential buildings with commercial premises on the ground floors, standalone commercial buildings with rentable areas varying from 1,000 square meters to 7,500 square meters, a standalone fitness center and multi-story underground parking garages. The development will include P3M, KOPE-M Parus, KOPE-M Tower and poured concrete buildings. An approximate net sellable area of the buildings is 834,030 square meters (PIK Share). The development project provides for construction of parking garages with 7,604 parking spaces (PIK Share) in total. The development site consists of twenty six land plots with the total area of 114.25 hectares. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Yaroslavsky development at USD 264.4 million (RUB 7,423.2 million).

As of June 30, 2011, the Mytischy local administration had approved the master planning schemes for micro district 15 and micro district 16. By the same date, we had completed the construction and procured acceptance by the State Commission of 14 buildings. We also received the construction permits for four residential buildings in micro district 16. However, seven residential buildings have reached various stages of construction.

In order to complete this development project we need to obtain necessary construction permits and finish construction of the remaining residential buildings and garages and obtain the acts of acceptance of these buildings by the State Commission. We have been subject to administrative fines for our failure to procure the issuance of construction permits. We will also need to prepare master planning scheme for the remaining part of micro district 15 and detailed project design documentation for other buildings to be constructed, procure approval of these documents by the relevant state authorities and obtain construction permits. The construction is expected to be completed by in the second half of 2022.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”*

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 1,756.0 million (RUB 49,302.0 million), as set out in the Valuation Report.

Viniso Investments Limited holds, directly and indirectly, a 100% interest in the following operating subsidiaries that are parties to the development process: Zagorodnaya Usadba, Tverdunya, EuroSystems and Stroyzhilinvest 16. We hold a 75% interest in Viniso Investments Limited with the remaining 25% interest owned by Euro Mytischy Private Limited (“EMPL”), an entity affiliated with GIC Real Estate Pte Ltd. On December 20, 2007, we entered into a joint venture agreement with EMPL concerning the joint operation and management of the development project. Pursuant to the joint venture agreement, EMPL is entitled to appoint one third of the members of the board of directors of Viniso Investments Limited, has veto rights with respect to specified reserved matters, certain control rights and a right to be informed of the development process.

On March 30, 2005, Zagorodnaya Usadba, the Construction Complex Ministry of the Moscow region and the Administration of the Mytischy District of the Moscow region entered into an investment contract for the construction of a residential complex in micro district 15. On June 10, 2005, the Ministry of Property Relations of the Moscow region and Zagorodnaya Usadba entered into a long-term land lease agreement with respect to the land with a total area of 74.35 hectares covering the entire area of micro district 15. However, to simplify the development process, in December 2009, we conducted land surveying works and divided this land plot into 24 smaller land plots. The Mytischy Municipal District of the Moscow region and Zagorodnaya Usadba entered into long-term land lease agreements with respect to 19 land plots in May 2010. These lease agreements expire in May 2059. Furthermore, Zagorodnaya Usadba obtained the ownership title to buildings located on the remaining five land plots which by operation of law gave Zagorodnaya Usadba a right to use these land plots.

Eurosystems had a freehold title to a land plot with a total area of 27 hectares comprising a part of micro district 16. On April 21, 2011, Eurosystems and Zagorodnaya Usadba entered into a short-term lease agreement with respect to this land plot. Stroyzhilinvest 16 had a freehold title to a land plot with a total area of approximately 12.9 hectares comprising another part of micro district 16. On October 1, 2010, Stroyzhilinvest 16 and Zagorodnaya Usadba entered into a short-term lease agreement with respect to this land plot. On April 30, 2004 Tverdunya, the Construction Ministry for the Moscow region and the local

administration if Mytischki entered into an investment contract for the construction of buildings on a part of micro district 16 with a total area of 27 hectares, owned by Eurosystems and leased by Zagorodnaya Usadba.

Under the relevant investment contracts, 97% of the total residential and non-residential premises and parking spaces in the Yaroslavsky development are to be distributed to Zagorodnaya Usadba and Tverdnyya. The Administration of the Mytischki District of the Moscow region will be allocated the remaining 3% of the total residential and non-residential premises and parking spaces to be constructed as well as all objects of social infrastructure, engineering systems and transport infrastructure. In addition, pursuant to the terms of the respective investment contracts, Zagorodnaya Usadba and Tverdnyya agreed to contribute RUB 45.3 million and RUB 17.0, respectively, to finance the construction of engineering systems for the project by the local administration. On June 3, 2005, PIK-Region entered into a co-investment agreement with Tverdnyya for the joint financing and development of micro district 16. Pursuant to the agreement PIK-Region was allocated 142,752 square meters of residential premises and 6,341 square meters of non-residential premises in the development and 1,095 parking spaces in the development. PIK-Region agreed to contribute RUB 91.9 million to finance the construction.

On June 1, 2005, PIK-Region entered into a co-investment agreement with Zagorodnaya Usadba for the joint financing and development of micro district 15. Pursuant to the agreement (as amended on December 24, 2007 and November 14, 2008) PIK-Region was allocated 99.9 thousand square meters of residential and 0.5 thousand square meters of non-residential premises in the development. On December 24, 2007, Vorema Holdings Limited, an entity affiliated with Viniso Investments Limited, entered into a co-investment agreement with Zagorodnaya Usadba for the joint financing and development of micro district 15. Pursuant to the agreement Vorema Holdings Limited was allocated 417,162.2 square meters of residential premises, 24,732.6 square meters of non-residential premises and 4,378 parking spaces in the development.

On December 24, 2007, Vorema Holdings Limited entered into a co-investment agreement with Tverdnyya for the joint financing and development of micro district 16. Pursuant to the agreement Vorema Holdings Limited was allocated 142,752.5 square meters of residential premises, 6,341.5 square meters of non-residential premises and 1,095 parking spaces in the development.

On December 29, 2008, the Company and LLC FT-Realty entered into a co-investment agreement for the joint financing and development of three buildings in micro district 15. Pursuant to the agreement (as amended on September 28, 2009; June 30, 2010; March 4, 2010 and October 15, 2010) LLC FT-Realty was allocated approximately 48,539 square meters of residential premises in the development. The construction of these three buildings has already been completed. On March 4, 2011, the Company and LLC FT-Realty entered into partial performance act in accordance with which we fulfilled our construction obligations and LLC FT-Realty fulfilled their finance obligations.

#### *Mantulinskaya Street 7 - Moscow*

This development is located in central Moscow on Mantulinskaya Street near the Third Ring Road and the Moscow International Business Center (Moscow-City). The location of the property allows convenient access by both public and private transport. The development site is located within a 20-minute walking distance from a subway station. Moreover, according to the project documentation of the Moscow Government, a four-lane road is planned to be built in close proximity to the development. According to our preliminary development plan, we intend to construct a complex of poured concrete buildings on the site, covering a total area of 6.9 hectares and having a net sellable area of approximately 122,200 square meters (PIK Share). The complex will include business class apartment buildings, a retail complex of around 2,000 square meters of rentable areas and underground parking with 1,760 spaces. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Mantulinskaya Street 7 development at USD 360.8 million (RUB 10,129.7 million).

By June 30, 2011, we had secured the freehold title to two land plots with a total area of 6.9 hectares underlying the development site, however, a master planning scheme for this development had not been prepared and approved by the state authorities. As a result, permitted use of these land plots does not allow us to commence construction on the site. The development site is occupied by the buildings of a former Krasnopresnensky sugar plant. The majority of the buildings are currently used as warehouses. Our development plans are based on the assumption that the Moscow Government will make a decision to approve the demolition of the plant and the construction of a residential complex, retail and hotel premises on the land currently occupied by the plant. We expect that the Moscow Government will provide the development with an access to necessary social infrastructure. This decision would be in line with the plans of the Moscow Government to redevelop the “Big City” area of Moscow.

The development project is at the pre-design stage. In order to complete this development project we will need to prepare a master planning scheme of the development and obtain the state approval of the scheme, which would result in a change of the permitted use of the land underlying the development site, obtain state approvals of the project design documentation and construction permits, demolish the existing buildings on the land site and begin the construction. We are in the process of preparing a master planning scheme of the development and expect to commence the construction works in the next two years. We expect to complete the construction works in the first half of 2019.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”*

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 478.3 million (RUB 13,429.7 million), as set out in the Valuation Report.

Our wholly-owned subsidiaries Blakeston Holdings Limited and Stroycoresurs own 100% of outstanding shares in KSRZ, which holds the ownership title to real properties located on the development site. As the owner of the buildings located on the development site, we are entitled to acquire the freehold title to the land underlying our properties. By June 30, 2011, we had secured the freehold title to two land plots with a total area of 5.9 and 0.9 hectares, respectively, underlying our properties. However, the Land Resources Department of Moscow, granting the ownership title to us, expressly prohibited any construction works on the land plot with a total area of 0.9 hectares. According to our preliminary development plan, this part of the development site will be used as a road and no construction on it is currently planned.

#### *Kommunarka Village - Leninsky District, Moscow region*

The Kommunarka Village development is located in the Moscow region’s Leninsky Administrative District, approximately four kilometers to the south-west of the MKAD ring road along the Kaluzhskoye Highway. A newly constructed metro station, which can be reached in 10 minutes by the public bus, provides convenient access to the property by public transport. According to our preliminary development plan, we intend to construct several residential complexes with a net sellable area of approximately 1,078.8 thousand square meters (PIK Share) and garages for 5,800 parking spaces (PIK Share) on a land plot with a total area of 127.79 hectares. The complexes will consist of multi-story residential buildings with commercial premises on the ground floor and objects of social infrastructure, including schools and kindergartens. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Kommunarka Village development at USD 161.3 million (RUB 4,528.6 million).

Status Land, our wholly owned subsidiary, has the freehold title to a land plot comprising the development site. The permitted use of the land plot allows for construction of a residential complex. The development project is at the pre-design stage. In June 2010, the local administration granted permission for preparation of the master planning scheme. We are currently in the process of obtaining State approval of the master planning scheme for the first phase of the development.

In order to complete this development project we must procure state approval of the master planning scheme of the development, enter into an investment contract with the local authorities, prepare detailed project design documentation and procure its acceptance by the state authorities, obtain construction permits and begin the construction. We plan to begin construction in 2012. Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is expected to be completed in the first half of 2026.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 1,895.5 million (RUB 53,217.1 million), as set out in the Valuation Report.

#### *Kuntsevo - Moscow*

This property is located in the western part of Moscow, on Akademika Pavlova Street and Yartsevskaya Streets, close to the intersection with Roublevskoe Highway. West of Moscow is considered by the city’s residents to be one of the ecologically cleaner parts of Moscow and has several parks (including the forest park Serebryany Bor, a popular recreation venue for Moscow residents), ponds and rivers. The development is located in close proximity to the Suvorovsky Park and the Moscow River, which are located on the opposite side of the Roublevskoe Highway. The location of the property allows convenient

access by both public and private transport. The preliminary plan of development for this project provides for construction of seven poured concrete residential buildings, including one building to be constructed jointly with a co-investor, with high-quality (“business class”) and economy class apartments with an estimated total net sellable area of 166,126 square meters (PIK Share). The total area of land underlying the development site is approximately 5.95 hectares and includes blocks 7, 20 and 45-48 of Kuntsevo region. However, we have obtained lease rights only to a part of the site with a total area of 0.95 hectares. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Kuntsevo development at USD 177.4 million (RUB 4,980.6 million).

We completed the preparation of the master planning schemes for blocks 7 and 20 of the Kuntsevo region and obtained state approval of the schemes in 2006. We obtained a construction permit for one building located at the development site in 2007 and commenced the construction in 2009. As of June 30, 2011, construction of this building was in progress reaching the eighth-floor level. The development process on the other parts of the development site has been suspended as result of delays in relocation of current residents in the five-story Soviet-era residential buildings that are currently located on the development site to apartments in newly constructed municipal buildings. The process of relocation is managed by the local authorities.

In order to complete the development project we need to finish the construction of the building at 107 Roublevskoe Highway and obtain the act of its acceptance by the State Commission. We will also need to enter into lease agreements with respect to the entire development site, prepare project design documentation, procure its approval by the relevant state authorities, and obtain construction permits for the remaining six buildings. We expect to demolish the existing buildings and begin new construction upon completion of relocation of current residents by the local authorities.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is expected to be completed in the first half of 2018. We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 390.1 million (RUB 10,951.9 million), as set out in the Valuation Report.

In January 2003, the Moscow Government approved a plan of complex reconstruction of Kuntsevo blocks 7, 18, 20, 45 – 48 and Roublevo village (which was last amended in June 2009). According to the plan, five-story Soviet-era residential buildings located in these blocks were to be demolished with current residents relocated to new housing constructed in the same area. The plan provides for construction of 987,980 square meters of housing in total, including 606,520 square meters of municipal housing and 381,460 square meters of housing to be developed by Kuntsevo-Invest and its co-investors. As a compensation of the relocation costs incurred by the Moscow Government and as a consideration for the development rights, Kuntsevo-Invest is obliged to construct 173,260 square meters of municipal housing at its own expense and allocate 40% of non-residential premises and 10% of the parking spaces in all its buildings to the Moscow Government.

On June 20, 1996 Kuntsevo-Invest, on one hand and the local administration of the Western Administrative District of the city of Moscow (later substituted for the Moscow Government) entered into an investment contract (which was amended and restated on August 2, 2006) for the reconstruction of Kuntsevo blocks 18, 47 and 48. On May 26, 1999, Kuntsevo-Invest and the local administration of the Western Administrative District of the city of Moscow entered into an investment contract for the reconstruction of Kuntsevo blocks 7, 20, 45, 46 and Rublevo village.

On July 16, 2007, Monetchik, our wholly owned subsidiary, entered into a co-investment agreement with Kuntsevo-Invest concerning the joint financing of the reconstruction of residential blocks 7, 18, 20, 45-48 and the Roublevo village of the Kuntsevo region. Pursuant to the co-investment agreement, Monetchik contributed RUB 242 million to the development project upon the execution of the agreement and to share the costs of development, including the costs of construction of municipal housing. Monetchik was allocated 161,329 square meters of residential premises (including the building at 107 Roublevskoe Highway), 60% of commercial premises (half of which shall be allotted to the municipal authorities) and 90% parking spaces (half of which shall be allotted to the municipal authorities) in the development, including municipal buildings. On September 3, 2009, Monetchik entered into a co-investment agreement with the Company, which agreed to finance development of the project.

On January 20, 2010, Monetchik entered into a co-investment agreement with Mospromstroy, an entity not affiliated with us, on joint financing of the construction of the building at 107 Roublevskoe Highway. Pursuant to the co-investment agreement Mospromstroy committed to contribute approximately RUB 2,833 million to the construction on the development site upon the execution of the agreement and was allocated 78.1% of the total area of residential premises, 50% of non-residential premises and 78% of the parking spaces. Monetchik retained a share of 21.9% of the total area of residential premises, 10% of non-

residential premises and 12% of the parking spaces, considering the figures of the whole project. A portion of the obligation of Mospromstroy to make the initial contribution in the amount of approximately RUB 154.4 million was discharged by way of offset against the claims under the Credit Agreement between Monetchik with Open Joint Stock Company Alfa-Bank dated May 23, 2008, assigned to Mospromstroy in December 2009. On November 29, 2007, the Land Resources Department of Moscow and Kuntsevo-Invest entered into a short-term lease agreement in respect of the land plot with a total area of 0.95 hectare underlying a part of the development. The lease agreement technically expired in November 2008, but continues de-facto due to the parties' continued performance. The owner of the land may terminate the lease based on a termination notice sent three months prior to termination. Kuntsevo-Invest will be granted lease rights to other land plots underlying the development upon completion of the land surveying works.

#### *Sovkhoznaya 11 – Khimki, Moscow region*

Khimki is located just outside of the Moscow city limits, across the MKAD ring road, at the intersection of the Moscow – St. Petersburg Highway, the Oktyabrskaya railway and the Moscow River. Our second development in Khimki is situated on Sovkhoznaya Street 11, which is not far from the MKAD ring road. According to the revised master planning scheme of the development, we intend to develop a micro district with a net sellable area of approximately 405,677 square meters (PIK Share). The micro district will include 15 residential buildings, including mass-market prefabricated panel apartment buildings of the P3M and KOPE series, poured concrete business-class residential buildings, seven garages, infrastructure facilities and small shopping centers located on a land site of 41.67 hectares. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Sovkhoznaya 11 development at USD 193.3 million (RUB 5,427.1 million).

As of June 30, 2011, we completed the preparation of the master planning scheme of the development and obtained state approval of the scheme. We also prepared a supplement to the master planning scheme that needs to be approved by the state authorities as well. We completed preparation of the detailed project design documentation for five buildings located on the development site, which was approved by the state authorities. We have obtained construction permits for three buildings; however, five residential buildings have already reached various stages of completion. We have obtained the act of acceptance of one building by the State Commission. With three buildings nearly completed, we are currently conducting foundation works at the remaining four buildings.

In order to complete the development project we need to receive construction permits, finish the construction of five buildings and obtain the acts of acceptance of the buildings by the State Commission. We will also need to procure approval of the supplement to the master planning scheme by the state authorities, prepare project design documentation, procure its approval by the relevant state authorities and obtain construction permits for the remaining ten apartment buildings and garages to be constructed on the development site.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The Sovkhoznaya 11 project is expected to be completed in the first quarter of 2019.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 576.8 million (RUB 16,192.8 million), as set out in the Valuation Report.

On May 30, 2005, PIK-Region and the Ministry of Defense Unitary Agricultural Enterprise “Khimki” (Federal Unitary Enterprise), which was later renamed Federal Unitary Enterprise “Repair and Industrial Enterprise of the Moscow Military Circuit of the Russian Federation Ministry of Defense (the “RIE”), entered into an investment contract for the development of the property located at Sovkhoznaya 11 site with an approximate net sellable area of 445,052 square meters. Pursuant to the investment contract, PIK-Region agreed to perform the construction of the development and was allocated 73.4% of the residential, 94.5% of the commercial premises and 100% of parking spaces with the remaining shares, but not less than 107,969.4 square meters of residential and 1,949.2 square meters of non-residential premises, allocated to the Russian Federation. In addition, in accordance with the investment contract, PIK-Region transferred approximately 20,000 square meters of finished apartments in the towns of Dmitrov and Dolgoprudny to the Russian Federation in 2007. In 2009, all real and movable property of the RIE was contributed into a newly incorporated OJSC Repair and Industrial Enterprise (OJSC RIE).

In 2005, the development comprised a part of a larger land plot with a total area of 50.6 hectares owned by the Russian Federation and operated by the RIE. The entire land plot was classified as industrial land with agricultural use approved as a

permitted use of the land plot. To obtain the rights to a part of the land plot we performed land surveying works and divided it into several smaller land plots with three land plots with a total area of 41.13 hectares comprising the development site. We are currently in the process of changing the category and the permitted use of these land plots, which is expected to be completed in the fourth quarter of 2011. In April 2011, we acquired land plots underlying the development from OJSC RIE and registered our ownership to such land plots increasing our share in the project to 100% of the residential and commercial premises.

On August 14, 2009, PIK-Region entered into co-investment agreements with LLC Unix, an entity not affiliated with us, on joint financing of construction of two buildings located at 11 Sovkhoznaya street (buildings 17 and 18). Pursuant to the co-investment agreements, LLC Unix agreed to finance a part of construction costs in the amount of approximately RUB 830 million and was allocated a total net sellable area of 15,389 square meters (212 apartments).

Our interest in the Sovkhoznaya 11 development is pledged as a security of our repayment of debt owed under the credit agreements to Morgan Stanley and Nomura. According to the terms of these credit agreements, we are required to use 50% of proceeds from sales of real estate units in this development to make a mandatory prepayment of debt owed to these banks.

#### *Michurinsky Prospect, blocks 5-6, Ramenki - Moscow*

Michurinsky Prospect is situated in southwestern Moscow between Kutuzovsky and Leninsky Avenues. The area is undergoing rapid development and is being transformed into an upper middle class residential area. New housing constructed in the area mainly consists of poured concrete business class apartment buildings with underground parking facilities. This development is conveniently located and can be easily accessed by both public and private transport. The development includes several business-class poured concrete apartment buildings, including 14 residential buildings named in the project documentation, parking garages with approximately 3,050 spaces, supermarket, shopping center and several objects of social infrastructure, including schools and a kindergarten. Commercial premises will be located on the ground floor of each building. The total net sellable area of the development is 63,761 square meters (PIK Share). The total area of land underlying the development site is approximately 19.03 hectares. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Michurinsky Prospect, blocks 6-7, development at USD 129.2 million (RUB 3,627.4 million).

Moskapstroy, another developer not affiliated with us, has been selected to act as the project manager and has assumed responsibility for obtaining construction permits and rights to the land underlying the development site. The process of preparation of the detailed project design documentation for six buildings, a parking garage and a supermarket was completed by 2008. As of June 30, 2011, the building related to the PIK Share is at the design stage. All permits are outdated and we are currently looking for a new contractor.

In order to complete the development project, the construction works must be completed and the buildings must be accepted by the State Commission. Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, Moskapstroy will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is planned to be completed in the first half of 2017 with the PIK Share of the development to be completed in 2014.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 155.1 million (RUB 4,353.3 million), as set out in the Valuation Report.

In November 2002, the Moscow Government approved a plan of relocation of enterprises occupying blocks 5-6 of Michurinsky Prospect in the Ramenki district (which was amended in June 2008). According to the plan, enterprises holding lease rights to the land in this area were to be relocated to other districts of Moscow. The plan provides for construction of approximately 480,000 square meters of housing. As a compensation of the relocation costs incurred by the Moscow Government and as a consideration for the development rights, the city of Moscow is allocated 19% of residential premises, 25% of commercial premises and 20% of the parking spaces. A group of investors, including the Department of the City-Planning Policy, Development and Reconstruction of Moscow, were selected for participation in the development project and entered into an investment contract with the Moscow Government on October 27, 2005. Moskapstroy was selected by the Moscow Government to act as a construction manager.

On July 20, 2005, we won a tender organized by the Department of the City-Planning Policy, Development and Reconstruction of Moscow and were selected to participate in the project as a co-investor. On July 29, 2005, based on the results of the tender, the Company entered into a co-investment agreement with the Department of the City-Planning Policy, Development and

Reconstruction of Moscow. Pursuant to the co-investment agreement, we purchased the right to participate in financing of the development project as a co-investor for USD 14.2 million and agreed to finance 18% of the total amount of costs of development. We are allocated 14.58% of residential premises, 13.5% of commercial areas and 14.4% of the parking spaces in the development.

*Perovskaya 66 - Moscow*

This development is located in the Novogireevo District in the east of Moscow, on Perovskaya Street, at the intersection with Novoteterki Street. Several parks are located in the vicinity, including Perovsky Park to the northwest, and Kuskovo Park, a historical park encompassing the Kustovskiye lakes, to the north. According to our preliminary development plan, the development will consist of eight mass-market prefabricated panel residential buildings of the P3M series with underground parking and two stand-alone garage buildings. The development comprises two land plots with the total area of 15.32 hectares. We expect that the net sellable area of the development will be 139,000 square meters and the development will also include approximately 2,590 car parking spaces. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Perovskaya 66 development at USD 114.6 million (RUB 3,217.5 million).

In February 2007, we acquired our development rights in respect of Perovskaya 66 project through a purchase of 92.01% of shares in KHZ from AG Assets Company Limited. In 2007, we made a tender offer for all outstanding shares in KHZ. KHZ holds the ownership title to 35 buildings that are currently located on land plots underlying the development. However, permitted use of these land plots does not allow us to commence construction on the site. In 2008, KHZ obtained state approvals of the plan of demolition of the existing buildings and the plan of de-contamination of the land underlying the development. We are currently preparing a master planning scheme of the development.

The development project is at the pre-design stage. As of June 30, 2011, the development site was occupied by the buildings of a former chemical plant. Some buildings are currently used as warehouses and offices. In order to complete this development project we will need to finalize and obtain state approval of the master planning scheme of the development and change the permitted use of the land, demolish the existing buildings on the land site, de-contaminate the site, obtain state approvals of the project design documentation and construction permits, and begin the construction. We expect to commence the construction works in 2011. The construction of different phases of the project is planned to be completed in the first half of 2017.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See "*Regulation of the Real Estate in Russia.*"

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 325.7 million (RUB 9,144.0 million), as set out in the Valuation Report.

In 2002, the Moscow Land Committee and KHZ entered into lease agreements with respect to the land plots comprising the development site. The agreement in respect of the land plot with a total area of 14.12 hectares expires in 2026. The agreement in respect of the other land with a total area of 1.20 hectares plot technically expired in 2006, but continues de-facto due to the parties' continued performance. The owner of the land may terminate the lease based on a termination notice sent three months prior to termination.

On February 13, 2006, the Moscow Government and KHZ entered into an investment contract, pursuant to which KHZ committed to construct a residential complex at Perovskaya 66 site. In addition, KHZ agreed to construct several objects of social infrastructure totaling approximately 17,100 square meters, including a school and a kindergarten, and engineering infrastructure necessary for buildings to be constructed at the development site. Upon completion of construction, KHZ will be allocated 100% of the residential, commercial premises and car parking spaces in the residential complex, provided that KHZ makes a payment to the budget of the city of Moscow for the social, engineering and transport infrastructure in the amount of approximately USD 4.3 million by 2007. Pursuant to the contact, the development should be completed by the end of 2011.

On December 22, 2008, the Company entered into a co-investment agreement with KHZ. Under the co-investment agreement we have committed to finance the construction on the development site and have been allocated 100% of the residential premises, 50% of the non-residential premises and 100% of the parking spaces in the development.



*Marshala Zakharova 7 - Moscow*

This development is located in the Orekhovo-Borisovo District in the south of Moscow, in close proximity to Kashirskoye Highway and Borisovkiy Pond. The location of the property allows convenient access by both public and private transport. The development site is located within a 10-minute walking distance from a subway station. The neighborhood is characterized by panel residential properties and developed infrastructure, including stores, fitness centers and other facilities. According to our preliminary development plan, we intend to construct five prefabricated panel mass-market apartment buildings, including a housing complex consisting of four residential KOPE sections, an underground parking and an entertainment center, four KOPE tower buildings and an underground parking garage, with a total net sellable area of approximately 79,230 square meters (PIK Share) and a poured concrete parking garage with 1,306 parking spaces. The development site consists of four land plots with a total area of 1.70 hectares. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Marshala Zakharova 7 development at USD 65.8 million (RUB 1,847.4 million).

From April 2008 to July 2010 works related to the development were suspended as a result of investigation of the Moscow government whether the planned development would be permitted under construction density rules. In July 2010, the governmental commission confirmed that planned construction would not violate existing city-planning regulations. We are currently preparing a master planning scheme for the development. We have obtained lease rights to one of the four land plots underlying the proposed development.

In order to complete this development project we need to obtain consent of the Moscow government to the extension of the term of the investment contract, enter into lease agreements with respect to three land plots comprising parts of the development site, complete the preparation of the project design documentation, obtain state approvals of the master planning scheme and the detailed project design documentation, receive construction permits and begin the construction. We expect to commence the construction works in 2012.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is expected to be completed in the second half of 2015.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 198.8 million (RUB 5,581.1 million), as set out in the Valuation Report.

On December 4, 2006, the Moscow Government and Veistoun, our wholly owned subsidiary, entered into an investment contract relating to the development of the project located at Marshala Zakharova Street 7. Pursuant to the investment contract, Veistoun agreed to perform the construction of the development and was allocated 100% of the residential and commercial premises and 100% of parking spaces. In exchange for the development rights, Veistoun agreed to contribute USD 51 million toward the city’s social, engineering and transportation infrastructure in 2006 – 2009. Pursuant to the investment contract, Veistoun committed to complete the construction on the development site by December 31, 2009. The investment contract expired in April 2010. Veistoun is currently negotiating an amendment to the investment contract that would provide for an extension of the term of the contract and postponement of the completion date, which we expect to be granted, as the delay was largely caused by the investigation of the Moscow Government.

On April 28, 2007, Veistoun entered into a co-investment agreement with the Company (as amended on July 2, 2007). Pursuant to the co-investment agreement we contributed RUB 609 million to the development project upon the execution of the agreement and agreed to finance all the development costs. We have been allocated 100% of the residential and non-residential premises and 100% of the parking spaces in the development.

On February 28, 2003, the Moscow Land Committee and Veistoun entered into a long-term land lease agreement with respect to one of the land plots comprising a part of the development site (with a total area of 1.7 hectare), which expires in 2052. In May 2007, the Moscow Land Committee and Veistoun entered into an amendment to the land lease in order to change the permitted use of the land plot and allow for construction of the housing complex. We have commenced negotiations with the Moscow Land Committee in order to obtain lease rights to the other land plots (with a total area of 3.09 hectares) comprising the development site and filed a claim with the Moscow Arbitration Court against the Moscow Government seeking to prolong the investment contract and to provide us lease rights to the relevant land plots in accordance with such investment contract.

*Varshavskoye Highway, possession 141 - Moscow*

This development is located in the southern part of Moscow, near the intersection of Varshavskoe Highway and Kirpichnye Vyemki Street. Bitsevsky Park is located in the vicinity of the property, across Varshavskoe Highway. According to our preliminary development plan, we intend to construct several economy class residential prefabricated panel buildings of the P3M series and underground parking facilities with a total net sellable area of approximately 130,000 square meters. The development comprises two land plots with the total area of 8.87 hectares. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Varshavskoe Highway, possession 141 development at USD 105.0 million (RUB 2,948.0 million).

By June 30, 2011, we had completed land surveying works for a land plot with an area of 7.37 hectares and had prevailed in litigation against the Land Resources Department of Moscow to acquire the ownership title to the land plot. In addition, we received an expert opinion confirming that the area of the development is intended for construction of residential housing according to the Moscow city planning regulations. Currently, we own two land plots with the total area of 8.87 hectares underlining the development.

Currently the development site is occupied by the buildings of a former plant. In order to complete this development project we will need to prepare and procure state approval of the master planning scheme of the development, change the permitted use of the land, demolish the existing buildings on the land site, de-contaminate the site, obtain state approvals of the project design documentation and construction permits, and begin the construction. We expect to commence the construction works in the first half of 2012.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See "*Regulation of the Real Estate in Russia.*" The project is scheduled to be finished in the first half of 2017.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 257.1 million (RUB 7,218.6 million), as set out in the Valuation Report.

We acquired our development rights in respect of Varshavskoe Highway project through purchases of shares in the companies that own buildings (together with other real property) located on the development site. In 2007, we acquired controlling interests in Gazstroy mash and Comfort.

Gazstroy mash holds the ownership title to 25 buildings and three objects of industrial infrastructure that are located on one of the land plots (with the total area of 7.37 hectares) underlying the property. On December 28, 2005, the Land Resources Department of Moscow and Gazstroy mash entered into a land lease with respect to this land plot. As the owner of real property located on a land plot, Gazstroy mash was entitled to obtain the freehold title to the land plot. The Land Resources Department of Moscow rejected to grant the ownership title, therefore, Gazstroy mash challenged the rejection in court and obtained the decision compelling the Department to sell the land plot to the company in March 2010. Court of appeal and cassation court upheld the decision. We obtained the ownership title to the land plots in December 2010.

Comfort held an ownership title to the six buildings that are currently located on the other land plot (with the total area of 1.5 hectares) underlying the development. As the owner of real property located on the land plot, Comfort was entitled to obtain freehold title to the land plot. In 2009, Comfort engaged LLC ElitStroyService to prepare all necessary documentation in order to obtain the ownership title to the land plot, which was registered in June 2011. We plan to use this part of the development site for parking garages.

*Mironovskaya Street 46 - Moscow*

This development is located in the northeastern part of Moscow, in walking distance from Izmaylovskiy Recreation and Leisure Park. The property is located in a mainly industrial neighborhood; however, obsolete industrial buildings are currently being replaced with newly built housing. On the land site of approximately 2.64 hectares, we plan to construct a residential complex of several economy class prefabricated concrete panel apartment buildings with a net sellable area of approximately 43,250 square meters (PIK Share) and underground parking with 700 spaces. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Mironovskaya 46 development at USD 53.1 million (RUB 1,490.8 million).

By June 30, 2011, we had secured the freehold title to the land of the development site. In December 2009, the Moscow Government issued an order on commencement of preparation of the master planning scheme of this development. As of June 30, 2011, the development site was occupied by buildings of the former weaving-mill factory. The premises are currently used as warehouses and offices. The development project is at the pre-design stage.

In order to complete this development project we will need to prepare and procure state approval of the master planning scheme of the development, change the permitted use of the land, demolish the existing buildings on the land site, obtain state approvals of the project design documentation and construction permits, and begin the construction. Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is scheduled to be finished in the second half of 2014.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 87.9 million (RUB 2,466.6 million), as set out in the Valuation Report.

We acquired our development rights in respect of Mironovskaya 46 project through a purchase of 93.29% of shares in Krasniy Vostok. Krasniy Vostok is the owner of 100% buildings of the former weaving-mill factory that are currently located on the land comprising the development site. On June 30, 2006, the Russian Fund of Federal Property and Krasniy Vostok entered into a land purchase agreement. Pursuant to the agreement, Krasniy Vostok obtained a freehold title to the land plot comprising the development site.

#### *Akademika Vinogradova, possession 7 - Moscow*

Akademika Vinogradova Street, where this development is located, is between Profsoyuznaya Street and Leninsky Avenue in the southwestern part of Moscow, close to the MKAD ring road. The property is located in a residential neighborhood next to the forest park Troparevskiy. On the development site we are constructing four poured concrete economy class apartment buildings with a net sellable area of approximately 82,758 square meters (PIK Share) and a multi-story parking garage with 1,356 spaces (PIK Share). We offer studios (with an isolated kitchen), one-bedroom apartments and two-bedroom apartments in this development. The apartment complex will also include social facilities, such as a children center and a fitness and health improvement center with an underground parking. The land site underlying the development consists of seven land plots, including land plots underlying social infrastructure objects, with an approximate total area of 7.2 hectares, of which we previously leased three land plots with a total area of 1.33 hectares (on which construction has been completed) and are currently leasing two land plots with a total area of 2.06 hectares. We plan to enter into lease agreements with respect to the remaining land plots in the future. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Akademika Vinogradova development at USD 80.5 million (RUB 2,260.1 million).

As of June 30, 2011, we had completed construction of four apartment buildings and a parking garage. These buildings and the garage were accepted by the State Commission. We are currently preparing preliminary design documentation for the health improvement center with underground parking and other social facilities and performing land surveying works with respect to the land plots underlying the fourth building and the objects of social infrastructure to obtain lease rights to the entire development site.

In order to complete the development project we need to complete the land surveying works, obtain the leasehold rights to the land plots underlying the fourth apartment building, health improvement center with an underground parking and other objects of social infrastructure, prepare detailed design documentation for the buildings, procure its approval by the relevant state authorities and obtain construction permits. We expect to begin construction of the remaining buildings in the second half of 2011.

Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is scheduled to be finished in the first half of 2014.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 92.2 million (RUB 2,588.5 million), as set out in the Valuation Report.

On August 6, 2003, the Moscow Government and Polikvart entered into an investment contract relating to the development of several properties, including the property at Akademika Vinogradova Street, possession 7. On October 16, 2006, Polikvart agreed to assign to the Company its development rights under the investment contract with respect to the Akademika Vinogradova Street development. On October 26, 2006, the investment contract was amended and the Company became a party to the contract.

Pursuant to the investment contract we committed to complete the development of the Akademika Vinogradova Street property by the end of 2008. However, in December 2008, the Moscow Government by its order extended the completion date to the end of 2011. In addition, we agreed to construct several objects of social infrastructure, including a children center and a fitness and health improvement complex. Upon completion of construction, we will be allocated 100% of the residential, 60% of the commercial premises (with a right of first refusal in respect of the 40% share of the Moscow city) and 80% of the parking spaces in the development.

On November 20, 2009, the Company entered into co-investment agreements with Mospromstoy, an entity not affiliated with us, on joint financing of construction of two apartment buildings located on the development site. Pursuant to the co-investment agreement, Mospromstoy agreed to finance a part of construction costs in the amount of approximately RUB 3,164 million (subject to adjustment as set forth in the agreement) and was allocated a total net sellable area of approximately 61% of residential premises, 50% of commercial premises and 61% of parking spaces in these two buildings.

In 2007 and 2008, the Land Resources Department of Moscow and the Company entered into five short-term land lease agreements with respect to the land plots comprising a part of the development site underlying the two completed buildings and the parking garage with a total area of 3.39 hectares. Three of these agreements have now expired, as we have completed construction and received commissioning acts with respect to the buildings on these land plots. Currently, the Company is leasing two land plots with a total area of 2.06 hectares. We plan to obtain lease rights to the other land plots comprising the development site in the future.

#### *South Chertanovo, micro districts 17-18 - Moscow*

This development is located in the Southern Chertanovo District in the south of Moscow. The land site is on a driveway within the Varshavskoe Highway system, two kilometers away from the intersection of Varshavskoe Highway and the MKAD ring road. The development site includes four land plots with the total area of approximately 11.35 hectares, including the area of 1.5 hectares that will be developed separately by the Moscow Government. Our development activities and development plans only cover the area of 9.9 hectares and do not include a portion of the development site allocated to the Moscow Government. According to the preliminary development plan, the development will include a residential complex of eight economy-class poured concrete, brick and prefabricated concrete panel apartment buildings with a net sellable area of approximately 86,982 square meters (PIK Share), a kindergarten and an underground parking with 1,229 spaces (PIK Share). As of June 30, 2011, CBRE assessed the Market Value of our interest in the South Chertanovo development at USD 60.5 million (RUB 1,698.6 million).

As of June 30, 2011, we had obtained the decisions on the permitted use of the land plots comprising the development site. The construction in progress initiated by other developers that we committed to finish was completed and accepted by the State Commission. Two buildings are at the foundation stage, while other buildings are currently at different stages of construction, reaching the twenty-fifth level.

In order to complete the development project we need to prepare and procure state approval of the master planning scheme of the development, detailed project design documentation and obtain construction permits for apartment buildings, kindergarten and an underground parking. Construction of the buildings was commenced in November 2010. Upon completion of construction and receipt of the acts of acceptance of the buildings by the State Commission, we will need to obtain an operational permit from the relevant state authorities and procure registration of ownership rights to real estate units in the completed project with the federal registration authority. See *“Regulation of the Real Estate in Russia.”* The project is scheduled to be finished in the first half of 2014.

We estimate that the total remaining costs for the project from June 30, 2011 up to completion will be approximately USD 195.8 million (RUB 5,498.2 million), as set out in the Valuation Report.

On December 26, 2007, the State Establishment “The 43<sup>rd</sup> Capital Construction Department of Apartment and Maintenance Administration for the Moscow city of the Main Apartment and Maintenance Administration of the Ministry of Defense” (the

“AMA”) and the Moscow Government entered into an investment contract relating to the South Chertanovo development. Under the investment contract, the AMA agreed to organize a tender to select an investor that would carry out construction works on the development site at its own expense and would be allocated a portion of the AMA’s share of residential, non-residential premises and parking spaces in the development. Investor’s participation in the development project was conditioned upon investor’s commitment to complete construction in progress (one unfinished building located on the development site), which had been started by other developers that went bankrupt, to deliver the apartments to private investors. Upon completion of construction works, 60% of the non-residential premises will be allocated to the AMA and the participating investor. Pursuant to the contract, the city of Moscow had an option either to retain 15% of land comprising the development site for construction of social housing at its own expense or to invest in construction of 15% of residential premises in the buildings constructed by the investor. The city of Moscow has elected to retain 15% of land comprising the development site. As a result, the AMA and participating investors have been allocated 100% of the residential premises in the development.

On November 17, 2009, the Moscow government passed an executive regulation granting the AMA the right of perpetual use of three land plots with a total area of 9.89 hectares comprising the development site.

We won a tender organized by the AMA and were selected to act as an investor responsible for development of the property. On April 11, 2008, we entered into an agreement with the AMA on assignment of the AMA’s development rights to us. We agreed to perform the construction on the development site (including completion of the construction in progress, as set forth in the investment contract). We were allocated 76.85% of the AMA’s share of the residential premises, 60% of the non-residential premises and 100% of the AMA’s share of the parking spaces in the development. The agreement also provides for a possibility of delivery of apartments in other properties developed by us to the AMA in lieu of allocation of a portion of residential premises in the South Chertanovo development.

Pursuant to the investment contract and the agreement with the AMA, the Company has committed to complete the construction on the development site by December 31, 2010. We are currently considering amending to the investment contract to extend its term.

### **Pipeline Projects**

Potential projects under consideration at various stages of evaluation, internal approval and negotiation are considered to be pipeline projects. These pipeline projects are at a very preliminary stage and subject to finalization of negotiations and, in some cases, completion of formal due diligence.

As of June 30, 2011, we acquired rights with respect to two new development projects located in Moscow and the Moscow region.

#### *Izmaylovsky Proezd, Moscow*

On April 25, 2011, LLC Park Presnya, our wholly-owned subsidiary, and autonomous noncommercial organization City Intra-Industry Fitness Club “Zdorovye” entered into a real estate sale and purchase agreement. Under this agreement we purchased eight facilities on land plots with a total area of approximately 3.5 hectares located at Izmaylovsky Proezd, Moscow. In order to start construction on these land plots, we must change the permitted use of the land underlying the development site, obtain the state approvals of the project design documentation and construction permits and demolish the existing buildings on the development site. The development will envisage two prefabricated panel mass-market apartment buildings with a total residential area of approximately 53.8 thousand square meters. We will have 100% in the project. The project is currently expected to be commenced in the first half of 2013.

#### *Pyhtino village, Leninskiy municipal district, Moscow region*

On June 10, 2011, our wholly-owned subsidiary PIK-Region and LLC Morton-RSO entered into a co-investment agreement related to a development project in Pyhtino village, Leninskiy municipal district, Moscow region. Under the co-investment agreement we have committed to finance the design and construction of three prefabricated panel mass-market apartment buildings with a total area of approximately 86.3 thousand square meters. Upon completion of the construction, we will be allocated 54.5% of the total residential and non-residential area in the development. The project is currently expected to be commenced in the first half of 2013.

As of June 30, 2011, we had three projects in our future pipeline; two located in Moscow and one in the Moscow region.

The table below sets forth below information relating to our pipeline projects as of June 30, 2011.

<b>Project location</b>	<b>Total estimated NSA</b>	<b>Estimated NSA (PIK Share)</b>	<b>Market Value</b>	<b>Type</b>
	<i>thousand sq. m.</i>	<i>thousand sq. m</i>	<i>mln USD</i>	
Kashirskoye Highway, Moscow .....	58.4	30.2	13.8	Co-investment
Vucheticha Street, Moscow .....	10.8	10.8	9.5	Development rights acquisition
Drozhino, Moscow region.....	100.6	56.3	5.8	Co-investment
<b>Total</b> .....	<b>169.8</b>	<b>97.3</b>	<b>29.1</b>	

#### *Kashirskoye Highway, Moscow*

On June 30, 2011, we entered into a joint participation agreement with LLC MakroInvest with regard to an investment project for construction of residential complex located at Kashirskoe Highway 3, Moscow. Pursuant to the joint participation agreement, we have committed to secure project works and to construct residential buildings on a land plot with a total area 3.5 hectares. LLC MakroInvest has lease rights to the land plot comprising the development site. Upon completion of the construction, we will be allocated 50% of the revenues from the sale of the residential and non-residential premises in the residential complex. Following the successful completion of the investment project we may negotiate with LLC MakroInvest the construction of parking spaces and kindergarten. We currently intend to commence the project in the first half of 2013.

#### *Vucheticha Street, Moscow*

On April 25, 2011, we entered into a term sheet with a private individual, not affiliated with us, in order to obtain ownership rights to three buildings and one land plot with a total area of 0.7 hectares located at Vucheticha Street, Moscow. Under this term sheet the Company or its affiliate intends to obtain ownership rights to three buildings and one land plot through the purchase of 100% of the equity interests in LLC Avrora, a company owning the relevant land plot and buildings. As of the date of that acquisition LLC Avrora is required to have registered rights to this property. We intend to obtain ownership rights to the land plot and three buildings for the purpose of construction of a prefabricated panel mass-market apartment building with a total residential area of approximately 10.8 thousand square meters. We will have 100% interest in the project. The project is currently expected to be commenced in the first half of 2013.

#### *Drozhino, Moscow region*

As of June 30, 2011, we had an informal agreement with Morton Group on co-investing in a new development project in Drozhino village, Moscow region. We intend to enter into a memorandum of understanding by the end of 2011. This development envisages prefabricated panel mass-market apartment buildings with the necessary social infrastructure. The total residential area will be approximately 100.6 thousand square meters. We will have 56% in the project. The project is currently expected to be commenced in the first half of 2013.

We cannot assure you that we will obtain any land use rights or any or all of the requisite governmental approvals for the development of these pipeline projects. For more details on the risks associated with these potential new projects, see “*Risk Factors – Risks Relating to Our Business – Our projects may be subject to delay, non-completion and financial loss*” and “*Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and we may fail to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements*”.

#### ***Optimization of the Regional Land Bank.***

To implement our strategy of optimization of our land bank structure, we have revised our development plans for certain properties in several regions of Russia, including the Omsk, Yaroslavl, Perm regions and the Republic of Udmurtia, to scale down our participation in these projects to the share that has already been paid for and to cancel our commitment to make additional payments.

In particular, in 2007, the Omsk city administration auctioned the right to enter into an 11-year lease agreement with respect to a land plot in Omsk city intended for residential development with a total area of approximately 293 hectares. We were

awarded lease rights to the land plot for a total consideration (excluding future lease payments) of RUB 1,550 million. We paid RUB 620 million (40% of the total amount) in cash and had a contractual commitment to make a further payment of RUB 930 million to the Omsk city administration. As a result of a steep decline in local land value resulting from deterioration of the local real estate market in 2009, an acquisition of the lease rights for RUB 1,550 million would render development of this property economically unfeasible. In 2010, the Omsk city administration formally agreed to cancel our commitment to pay the remaining portion of the purchase price for lease rights to the land plot with the corresponding decrease of an area leased by us. In September 2010, the Omsk region court confirmed the settlement agreement under which the land plot was divided in two smaller plots. In October 2010, we obtained lease rights to a newly formed land plot with a total area of 117.2 hectares, in proportion to the amount paid. As a result, the Omsk city administration abandoned its claim for the payment of RUB 930 million, and we were able to reverse RUB 930 million previously included in our accounts payable.

In 2008, the territorial administration of the Federal Agency for Management of the Federal Property in the Perm region entered into a sale agreement with us with respect to a land plot in Perm city underlying the facilities of a former airport with a total area of approximately 129.12 hectares. The total purchase price for the land plot amounted to RUB 51.8 million. We paid RUB 18.3 million (approximately 35% of the purchase price) in cash and had a contractual commitment to pay other RUB 33.5 million to the Federal Agency for Management of the Federal Property. As a result of a steep decline in local land value, resulting from deterioration of the local real estate market in 2009, an acquisition of the land plot for RUB 51.8 million would render development of this property economically unfeasible. Presently, the land plot is divided into two smaller plots with an area of 39 hectares and 90.12 hectares, respectively. Both land plots are owned by LLC PIK-Region (Perm), a company with two participants, one of which is our affiliate. In June 2011, LLC PIK-Region (Perm) and PIK-Region entered into a sale agreement to purchase the land plot with a total area of 39 hectares and in August 2011, PIK-Region registered its ownership right to this land plot. Following this transaction, our affiliate intends to sell its participatory interest in LLC PIK-Region (Perm). As a result, we were able to reverse RUB 33.5 million previously included in our accounts payable.

In 2008, the Land Resources Administration of the Yaroslavl city administration entered into a sale agreement with Max Ltd., our wholly-owned subsidiary, with respect to lease rights to a land plot in Yaroslavl city intended for residential development with a total area of approximately 25.8 hectares. The total purchase price for the lease rights to the land plot (excluding future lease payments) amounted to RUB 449.5 million. We paid RUB 179.8 million (40% of the purchase price) in cash and had a contractual commitment to pay the remaining amount of RUB 269.7 million to the Land Resources Administration of the Yaroslavl city. As a result of a steep decline in local land value resulting from deterioration of the local real estate market in 2009, acquisition of the land plot for RUB 449.5 million would render development of this property economically unfeasible. According to the settlement agreement, confirmed by the court in August 2010, the land plot was divided in two smaller plots, one of which with a total area of 15.5 hectares was transferred to the Land Resources Administration of the Yaroslavl city. The amendment agreement with respect to changes to the plot area was registered in May 2011. As a result of this transfer, our contractual commitment to pay RUB 269.7 million has been formally cancelled. As a result, we were able to reverse RUB 269.7 million previously included in our accounts payable.

In addition, we have challenged an agreement, under which we purchased from a person unrelated to us (the “**Izh-Stroy Seller**”), a 100% interest in Izh-Stroy that has a freehold title to three land plots in Izhevsk city with a total area of approximately 229.48 hectares. We have also demanded that the Izh-Stroy Seller return to us a portion of the purchase price paid by us in the amount of RUB 918 million. We believe that the agreement with the Izh-Stroy Seller is invalid, because it actually covers another transaction — a purchase of the land plots (and not a 100% interest in Izh-Stroy) from the Izh-Stroy Seller. We believe this other transaction is invalid as well, because the land plots are owned by Izh-Stroy and not by the Izh-Stroy Seller. See “*Legal Matters.*” For the purposes of independent appraisal of our properties, CBRE assumed that we have a freehold title to a land plot with a total area of 114.5 hectares, which corresponds to the portion of the purchase price paid by us to the Izh-Stroy Seller.

### ***Valuation of Our Properties***

We retained CBRE to value certain of our real estate properties and development projects, which we generally refer to in this description as “properties.” The valuations and a discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report. The properties in the Valuation Report are valued as of June 30, 2011.

Each property has been valued on the basis of “Market Value” in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors, or the Red Book. In the Red Book, “Market Value” is defined as: “The estimated amount for which a property should exchange on the date of valuation

between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The properties consist of (i) properties held as investment, (ii) properties in the course of development and (iii) properties held for development. According to CBRE, as of June 30, 2011, the aggregate market value of our beneficial share of the properties was USD 2,723.7 million, categorized as follows:

<b>Category</b>	<b>Number of Properties</b>	<b>Market Value of Our Beneficial Share</b>
	<b>mln USD</b>	
Properties held as investment.....	8	34.1
Properties in the course of development.....	44	1,346.9
Properties held for development .....	48	1,342.7
<b>Total</b> .....	<b>100</b>	<b>2,723.7</b>

Source: the Valuation Report

The valuations stated above represent the aggregate of the current values attributable to individual properties and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. In addition, each valuation does not consider any effect of multiple properties being developed concurrently or released to the market together. The values ascribed to each property are set out in the Valuation Report.

*Valuation Methodology*

CBRE based its valuation of the properties on the income approach and adopted a discounted cash flow method to arrive at a net present value of the property portfolio. In addition to the income approach, the sales comparison approach was used in the valuation of the properties held for the development, where comparable evidence on transactions or sites offered for sale was available. A residual approach was also used to verify the values obtained through the discounted cash flow method. Each method has its own limitations, especially in Russia, and we urge you to read the Valuation Report for a full discussion of these limitations. Below, we have generally described the basic premises of each of these approaches.

Under the income approach, prospective cash flows from a property and the costs associated with being able to generate those cash flows are discounted back to the present using a market-derived discount rate. The resulting net present value is an indication of the market value. Specifically, with respect to properties in the course of development and properties held for development, the market value is the net present value of all future income streams less the net present value of all future costs. The costs include all the development costs still outstanding for the property. Future incomes were based on current market conditions and anticipated future trends in rents and/or sales prices.

The discount rates adopted were built on a cumulative basis and contain relevant risk elements, including the risk free rate plus market, finance, planning/permission, encumbrance, and construction risks. In most cases the rate varied in accordance with the project’s completion stage, its scope and the status of its title and planning documents.

The residual method was used, where applicable, to verify the market values resulting from the discounted cash flow analysis for properties expected to be sold in the near term. Within the residual method CBRE applied the developer’s profit appropriate for each individual property based on a potential third party developer’s/purchaser’s likely expectations for the properties. CBRE also took into account comparable transactions where available and appropriate, which are also used as a cross check for the valuations derived from the income and residual approaches.

*Certain Assumptions and Methodologies*

The valuations are based on various assumptions and methodologies. We urge you to read the Valuation Report for a full discussion of these assumptions and methodologies. In general, CBRE has assumed a number of matters relating to the nature of the properties and the development process, including:



- there are no abnormal ground conditions or archeological remains present, which might adversely affect the present or future occupation, development or value of any of the properties;
- there are no and will not be any structural or latent defects within the properties and no deleterious or hazardous materials have been or are being utilized in the construction of the properties;
- building works will be completed to a high quality standard in accordance with the plans and specifications;
- properties will be completed on time and the buildings will be commissioned in accordance with the local regulations upon completion;
- there are no adverse town planning, highway or other schemes or proposals that will have a detrimental effect on the valuation;
- all relevant planning consents and building permits for the properties and their respective present or proposed uses exist or will be granted without material cost or delay;
- all buildings currently comply, or upon completion will comply, with all statutory and local authority requirements, including building, fire, and health and safety regulations;
- properties will be completed in accordance with information provided by us and this information is in accordance with city planning and applicable in the event a potential buyer should proceed with the project;
- building contractors or other parties with whom we have entered into contracts are capable of meeting their obligations and there are no material undisclosed breaches of contractual covenants;
- the properties possess good marketable titles free from any unusual encumbrances, restrictions or obligations;
- nothing would be revealed by any local search or replies to usual enquiries of the seller which would materially adversely affect the respective values of the properties;
- for the properties where only an investment contract with the proper authorities exists, property title will be issued upon completion of the development;
- land leases from the local authorities will be extended where required; and
- the properties are unlet and either currently on sale or planned to be offered for sale with vacant possession.

CBRE has also used various valuation methodologies intended to remove certain variables from the valuations. These valuation methodologies include, for example:

- where appropriate, CBRE considered our business plan to develop each property, but CBRE's valuation of properties where development plans had not been confirmed at the valuation date reflects its opinion of an appropriate development that could reasonably be expected to form the basis of a bid for a property by a third party, i.e., the "Highest and Best Use" has been considered for each property. The "Highest and Best Use" is defined in Paragraph 3.4 of International Valuation Standards as: "The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued." Therefore, CBRE's valuations do not necessarily reflect our intended investment/development program;
- the stated market values of the properties are exclusive of any VAT;
- no account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges;

- seller's costs, such as advertising and agents' fees, have been allowed for in CBRE's valuation, as have purchaser costs, however no allowances have been made for any other extraordinary expenses of realization, nor for taxation that might arise in the event of a disposal;
- values associated with stand alone parking structures have been distributed to the appropriate residential buildings for which they are intended on the basis of weighted net sellable area of these buildings; and
- machinery such as elevators, central heating and other normal service installations have been treated as an integral part of the building and are included in the valuations.

In addition, the valuations are based on the information that we have supplied to CBRE. CBRE has relied on such information as being correct and complete, without independent verification. Information provided by us and upon which CBRE relied includes:

- information regarding construction costs and construction phases for the property portfolio;
- copies of governmental decrees;
- copies of investment contracts;
- copies of architectural drawings of the properties;
- copies of project design approvals;
- copies of construction permits;
- copies of ownership certificates for the properties and the plans of Bureau for Technical Inventarization (“**BTI**”);
- information on land lease agreements;
- information on building areas;
- net sellable areas for the properties, which in some cases exceeded the approximate net sellable areas set forth in investment contracts provided by us to CBRE (with such excess being not more than 10%, which is in line with market practice);
- information related to development costs;
- engineering and design costs, which vary from project to project;
- information regarding encumbrances, including encumbrances related to liabilities to municipal and regional authorities; and
- for buildings in the property portfolio which are in the development stage, the stated percentages of work completed.

In the Valuation Report, CBRE confirmed that there has been no material change in the Market Value of any of the properties between June 30, 2011 and September 2, 2011, which is the date of the Valuation Report. CBRE further confirmed that it was not aware of anything that would require it to revise its assumptions or valuations in the Valuation Report as of that date.

*See also “Risk Factors — Risks Relating to Our Business — Real estate appraisals with respect to the properties and projects included in this Information Memorandum may not reflect their actual market values because determining such values is an inherently subjective process. In addition, an appraisal may not be directly comparable to those given in respect of similar portfolios held by other real estate development businesses in the Russian market as a result of differing assumptions and methodologies.” and “Risk Factors — Risks Relating to Our Business — The final building areas and net sellable area for projects in development may differ materially from the gross building areas and net sellable areas set out in the Valuation Report.”*

## **Licenses**

Since January 2010, activities relating to the construction and development of buildings in Russia are no longer subject to licensing. Instead, every person (entity) who intends to be engaged in construction, project design preparation or engineering survey activity must become a member of a non-profit self-regulated organization and obtain a certificate of approval from such organization. The certificate of approval is issued to a particular person (entity) for a particular type of activity, but it has no expiration date and serves as a permission to carry out permitted activity at any site in any part of the Russian Federation. The Company and several of our subsidiaries, including DSK-2, DSK-3, MFS-PIK and PIK Podyom, are members of Moscow Construction Union (Self-Regulated Organization) and hold all necessary certificates of approval permitting them to conduct construction, project design preparation and engineering survey works.

Our servicing and maintenance entities, DSK-3 and DSK-2, hold licenses to operate explosive and fire-hazardous sites, to provide firefighting services, for the operation of fire safety equipment; StroyInvest holds a license to operate explosive and fire-hazardous sites. In addition, DSK-2 holds a license for the extraction of underground waters. Our servicing subsidiary, PIK Avtotrans, holds licenses to carry passengers and a license for the collection, utilization, deactivation, transportation and placement of hazardous waste. Our maintenance entity, 100 KGI, holds a subsoil license and 480 KGI holds a license for the maintenance of vehicles.

## **Market and Competition**

We believe that we are the only integrated residential real estate developer in the Moscow Metropolitan Area that has the ability to manage and control all steps in the development and sale and produce key construction materials for its projects. However, several companies can be considered our main competitors in the residential real estate market. In the Moscow Metropolitan Area, we compete with other producers of prefabricated reinforced concrete panel housing as well as several real estate companies that construct poured concrete buildings. In regional markets, we also compete with formidable regional and local real estate developers. According to Rosstat, there are approximately 175,817 construction companies of different size throughout Russia. We compete for properties, development projects, contractors and customers.

The Moscow Metropolitan Area market of prefabricated panel mass-market housing is highly concentrated. Production and assembly of prefabricated panel housing requires material investment in production facilities, which serves as a barrier to entry for new participants. Our main competitors in the Moscow Metropolitan Area market are DSK-1, SU-155 and Glavmosstroy, which have considerable production capacity. Vedis Group does not have material production capacity; however, available resources to enter the market despite the recessionary condition of the Russian economy permitted it to increase its market share in the mass-market housing segment during the recent recession in the Russian economy. The Moscow Metropolitan Area market of poured concrete housing is less concentrated. Quality, location and price of poured concrete housing differ substantially. Some producers of poured concrete housing offer less expensive housing and compete with us in the segment of mass-market economy class housing.

Based on the Rosstat data on the construction volume in the Moscow Metropolitan Area and our data on the construction volume of our Group, our share of construction of residential housing (excluding construction of individual homes and summer homes, “*dachas*”) in the Moscow Metropolitan Area was 9% in 2010.

## **Occupational Health and Safety**

We consider the health and safety of our employees to be our most significant responsibility in connection with our operations. We strive to create a healthy and safe working environment at each of our facilities through the implementation of appropriate safety measures. Construction is a dangerous activity and we are subject to the general risk of accidents involving heavy equipment and machinery and performing work at dangerous heights. We believe that we follow Russian industry safety standards applicable to our respective operations.

Each production and construction facility in our group has a corporate occupational safety system to reduce industrial accidents, the level of industrial injuries and occupational sickness. We routinely monitor occupational safety at all of our facilities. All our equipment is certified by Russian authorities for compliance with work safety requirements under Russian law. We believe we are in compliance in all material respects with all safety laws and regulations applicable to our business.

Under Russian law, all companies must implement local procedures for health and safety, such as occupational, fire and electrical safety training programs and provide health and safety manuals. Each new employee at each of our facilities receives

introductory training, including general health and safety training at licensed training centers on the premises of such facility, a workstation assessment and fire and electrical safety training. We keep written records of all training that takes place. In addition, each facility has a permanent committee that annually reviews occupational, industrial and electrical safety awareness and takes appropriate actions to improve safety at the workplace.

We provide each employee at our facilities with appropriate work attire and protective equipment. We assess each workstation for conformity with statutory occupational safety standards. After a workstation becomes compliant with such standards, it is certified. All our employees are provided with mandatory medical insurance and those employed in hazardous or dangerous conditions are provided with mandatory social insurance against industrial injuries and occupational sickness. Regrettably, we experienced several industrial accidents at our DSK-2, DSK-3, 480 KGI, 100 KGI and MFS-PIK facilities in 2008, 2009, 2010 and the first half of 2011.

The table below summarizes our safety record for the relevant periods:

	For the year ended December 31,			For the six months ended
	2008	2009	2010	June 30, 2011
Accidents .....	9	12	6	7
Fatalities .....	0	0	1	1
<b>Total</b> .....	<b>9</b>	<b>12</b>	<b>7</b>	<b>8</b>

While we strive to reduce injuries and fatalities by implementing high safety standards at our facilities, there can be no assurance that serious accidents in the future will not occur. See *“Risk Factors — Risks Relating to Our Business — Our operations are subject to various risks and hazards associated with the nature of our production facilities and equipment.”*

### Environmental Issues

We are subject to various environmental laws and regulations, which vary according to the location of our proposed developments as well as the environmental conditions and present and former uses of such sites. The preliminary design specifications and master planning schemes for each of our developments must be approved by various federal, regional and local bodies, including by the relevant environmental protection authorities. Any environmental issues arising during the course of development are addressed with the appropriate environmental authority. We also are required to carry out soil testing in order to obtain a construction permit.

In addition, each of our manufacturing, production and processing facilities has received a set of documents regulating environmental issues related to our production activities, including limits of permitted emissions of different types (issued by Rostekhnadzor), waste generation limits (issued by Rostekhnadzor) and production controls for regulated sanitary zones (approved by the Sanitary-Hygienic Service of the Russian Federation). We regularly monitor the environmental impact of our operations at each of these facilities. Our quality control systems include environmental protection procedures such as controls for observance of waste generation limits with respect to each production unit and controls for water contamination, noise pollution and air pollution in regulated sanitary zones.

Each of our facilities is also given a budget to cover expenses related to scheduled and emergency actions taken to control any environmental damage. Our environmental management system has been developed in accordance with ISO standard 14000 and is designed to minimize environmental damage and waste disposal expenses, save energy and materials, reduce emergency incidences, improve our corporate image with the regulatory authorities, customers and the public, and to remove national and international trade barriers. DSK-2 and DSK-3, our main concrete panel production plants, and most of our other production, processing and manufacturing sites have been certified under ISO standard 14000.

We believe that we are in material compliance with all environmental laws and regulations to which we are subject.

### Employees

The following table sets forth the number of our employees in each of our business segments as of December 31, 2008, 2009, 2010 and June 30, 2011.

	Number of employees			
	As of December 31,			As of June 30,
	2008	2009	2010	2011
Management .....	142	134	128	134
Real Estate Development and Sales .....	1,485	913	1,052	974
Construction and Production Facilities .....	11,181	8,936	9,365	9,871
Aggregates .....	1,930	0	0	0
Facility Management and Maintenance .....	731	737	901	772
Architectural and Design Institutes .....	196	169	176	168
Other .....	67	11	13	40
<b>Total .....</b>	<b>15,732</b>	<b>10,900</b>	<b>11,635</b>	<b>11,959</b>

We and our subsidiaries make mandatory contributions to the governmental pension program in Russia. Historically, we have not provided any additional benefits to employees upon their retirement, or afterwards.

Employees of certain of our production entities are members of trade unions. As of June 30, 2011, approximately 2,980 of our DSK-2 employees, approximately 2,543 of our DSK-3 employees, approximately 438 of our PIK Avtotrans employees, approximately 85 of our employees at 100 KGI and approximately 270 of our MFS-PIK employees were members of trade unions. We have not experienced any work stoppages in the past and consider relations with our employees to be good.

As of June 30, 2011, approximately 7,092 of our employees, including employees of DSK-2, DSK-3, 100 KGI and 480 KGI, were party to collective bargaining agreements. Most of the collective bargaining agreements are for periods of one to three years. Collective bargaining agreements, in addition to incorporating provisions of the labor code of the Russian Federation, usually provide employees with certain social benefits, such as vouchers for public holidays and subsidies for recreation for employees and their families.

We have developed an integrated, grade-based incentive program for certain categories of our employees, including engineers, technical personnel and members of management. This system emphasizes individual as well as team performance. It is designed to recognize, for example, the contribution of each production facility to the consolidated group's aggregate performance, the contribution of each division within the production facility and of each employee within the production facility's respective divisions. We calculate the level of performance based on certain production and efficiency parameters for each division or employee, which are reviewed annually. Under this program, compensation includes a base salary, a personal performance-based bonus and an annual group bonus payable depending on the consolidated results of our group. The bonus is a fixed percentage of each employee's salary, which varies depending on seniority.

We provide corporate training programs including courses and seminars relating to team work, project management skills and software training, among others. We also reimburse our employees for up to 80% of pre-approved, unsponsored training programs. We also provide English language lessons to certain of our employees upon the recommendation of their supervisors.

### Intellectual Property

Our key intellectual property consists of several trademarks, including "PIK," "PIK-Region" and the advertising slogan "KuPIKvartiru," which means "Purchase an Apartment" in Russian. As of June 30, 2011, each of these trademarks was registered in Russia. In 2010, we launched a rebranding campaign and introduced an advertising slogan "Vse stroitsya, vse ustroitsya", which means "Every Construction is in Progress, Everything Will Work Out" in Russian. In 2011, we launched a new rebranding campaign and introduced a new advertising slogan "PIK\_2.0 Vazhno Vse!", which means "PIK\_2.0. Everything is important!" in Russian.

In addition, DSK-2 has a non-exclusive patent license and connected rights of use for a type of multilayer panel. The patent is valid for a period of 20 years from September 1, 1998 and DSK-2's license is valid for the term of the patent.

## Insurance

We maintain insurance policies with some of the leading Russian and foreign insurance companies, including Ingosstrakh, Industrial Insurance Group OSNOVA, UralSib Insurance Group, ROSNO, AIG Insurance and Reinsurance Company, ACE Insurance Company, Reso-Garantia, Soglasiye and Military Insurance Company.

We maintain insurance against the principal risks associated with the construction and assembly of buildings and development projects, including insurance against fire, flooding (including subsoil flooding), explosions, hurricanes, tornadoes, severe storms, terrorism, unlawful actions by third parties, defective materials, faulty construction, assembly or design, or collapse. We maintain this insurance under a package insurance policy covering all our construction projects, with each project individually insured beginning from the time of construction until the project is put into operation. Each project is also insured against damage to construction vehicles and equipment and against civil liability in connection with the construction and assembly of buildings.

We also maintain property insurance covering our production facilities, warehouses and office premises and production and office equipment. Some, but not all, of our facilities and equipment are covered under “all risks” policies.

We carry car fleet insurance against theft and damage for all of our vehicles, as well as third party liability car insurance as required by Russian law. We also carry liability insurance relating to the use of dangerous industrial sites, as required under Russian law.

While we carry insurance against what we consider the principal risks associated with our business, we are not covered against all potential risks and losses that could affect our operations. For example, we currently have no coverage for business interruption or the loss of key management personnel. No assurance can be given that our insurance will be adequate to cover all of our losses or liabilities, nor can assurance be given that insurance will continue to be available to us on commercially reasonable terms. See *“Risk Factors — Risks Relating to Our Business — We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.”*

## Legal Matters

We have been, and continue to be, the subject of legal proceedings and adjudications from time to time.

On June 26, 2008, we entered into an agreement with the Izh-Stroy Seller for the purchase and sale of a 100% interest in Izh-Stroy, a company that has a freehold title to three land plots in Izhevsk city with a total area of approximately 229.48 hectares. The total purchase price for the interest in Izh-Stroy amounted to RUB 1,836 million. We paid RUB 918 million (50% of the purchase price) in cash and by delivery of promissory notes and had a contractual obligation to pay the remaining part of the purchase price in the amount of RUB 918 million to the Izh-Stroy Seller. In December 2009, the Izh-Stroy Seller assigned its rights under the purchase and sale agreement to Imex Capital Incorporated Ltd. (“**Imex Capital**”).

In the beginning of 2010, Imex Capital filed a claim against us with the Moscow Arbitrazh Court seeking to recover RUB 918 million under the agreement for purchase and sale of interest in Izh-Stroy, together with RUB 146.9 million of accrued interest. As of the date of this Information Memorandum, Imex Capital’s claim against us has not yet been resolved by the Moscow Arbitrazh Court due to procedural and technical delays. The next hearing regarding Imex Capital’s claim against us is scheduled for October 11, 2011.

We challenged the agreement in the Arbitrazh Court of the Tula region. We asked the Court to declare the agreement an invalid transaction and apply the consequences of its invalidity by ordering Izh-Stroy Seller to return to us a portion of the purchase price paid by us. The next hearing in the Arbitrazh Court of the Tula region is scheduled for January 26, 2012.

In August 2010, Imex Capital also filed a claim against us and Izh-Stroy with the Arbitrazh Court of the Republic of Udmurtia seeking to recover RUB 108 million under the agreement for purchase and sale of interest in Izh-Stroy in August 2010. We asked the Court to declare the agreement on the assignment of rights under the agreement for the purchase and sale of an interest in Izh-Stroy an invalid transaction. On August 12, 2011, the Arbitrazh Court of the Republic of Udmurtia terminated the proceeding due to a mutual renunciation of claim.

We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, financial condition and results of operations, because the amount of Imex Capital's claim has been fully provided for in our Consolidated Financial Statements and has been included in the balance of accounts payable at respective period ends.

In April 2011, the Izh-Stroy Seller, who has obtained the rights under a share and purchase agreement from Imex Capital, filed a claim against us and Izh-Stroy with the Arbitrazh Court of the Republic Udmurtia seeking to recover RUB 459 million under the agreement for purchase and sale of interest in Izh-Stroy, together with RUB 190.3 million of accrued interest enforcing its pledge on immovable property owned by Izh-Stroy.

On August 9, 2011, we have entered into a settlement agreement with the Izh-Stroy Seller and Izh-Stroy. The agreement was approved by the Arbitrazh Court of Republic Udmurtia on August 12, 2011. According to the agreement, we are obliged to repay a consideration in the total amount of RUB 300 million by delivery of promissory notes issued by Sberbank by October 15, 2011, provided that Izh-Stroy transfers the title to a land plot with a total area of 33 hectares to the Izh-Stroy Seller. If Izh-Stroy fails to transfer the land plot by October 15, 2011, we will have to pay an additional RUB 33 million to the Izh-Stroy Seller by delivery of promissory notes issued by Sberbank.

On July 19, 2010 the Moscow city government filed several claims with the Moscow Arbitrazh Court against our subsidiary, PIK-Region, seeking to recover the total amount of RUB 1.1 billion. The Moscow authorities stated that we breached our obligations to construct municipal housing in the Moscow region under co-investment contracts related to our development projects in Khimki, Mytischi, Lyubertsy and Dolgoprudny. On July 22, 2010, the Moscow city government filed additional claims with the Moscow Arbitrazh Court against PIK-Region for the total amount of RUB 1.1 billion. The claims refer to the similar co-investment contracts. Presently, all claims have been either dismissed or terminated upon the Moscow city government motions.

In 2007, the Ministry of State Property and Land Resources of the Nizhny Novgorod region (the "MSPLR") auctioned the right to enter into a 7-year lease agreement with respect to a land plot in the city of Nizhny Novgorod intended for residential development with a total area of approximately 22.29 hectares. We were awarded lease rights to the land plot for a total consideration (excluding future lease payments) of RUB 1,716 million. We paid RUB 343.2 million (20% of the total amount) in cash and had a contractual obligation to pay other RUB 1,372.8 million to the MSPLR in several installments starting in June 1, 2008. Under the terms of an agreement on the procedure of determining the total price for the right to enter into a lease agreement of a land plot located at Shnitnikova Streer in the Avtozavodsky District of Nizhny Novgorod, intended for residential development (the "**Agreement on the procedure of determining the total price**"), the MSPLR may terminate the agreement, if we fail to make timely payments of the consideration for the right to enter into the lease agreement. As a result of a steep decline in local land value, resulting from deterioration of the local real estate market in the second half 2008 and 2009, acquisition of the lease rights for RUB 1,716 million would render development of this property economically unfeasible. We failed to make timely payments of the consideration for the right to enter into the lease agreement starting from June 1, 2008.

In 2009, the MSPLR filed a claim against us with the Arbitrazh Court for the Nizhny Novgorod region seeking to recover a portion of the payment for the right to enter into the lease agreement in the amount of RUB 343.2 million that was past due as of March 31, 2009, together with the accrued interest of RUB 13.4 million. In addition, the MSPLR also requested the court to terminate the land lease agreement itself. We did contest the claim. In May 2009, the Arbitrazh Court of the Nizhny Novgorod region ruled in favor of the MSPLR. It declared the lease agreement terminated and awarded RUB 356.6 million to the MSPLR. The termination of the lease agreement resulted in a gain of RUB 857 million, as shown in our Unaudited Consolidated Financial Statements, because of a reduction in our accounts payable. In January 2010, we entered into a settlement agreement with the MSPLR, under which we agreed to pay RUB 270.8 million in several installments by April 30, 2011 to the MSPLR in satisfaction of our obligation to make payments for the use of the land plot before the termination of the lease agreement, together with the accrued penalties.

In November 2010, the MSPLR filed a claim against us with the Arbitrazh Court of the Nizhny Novgorod region seeking to recover RUB 1.2 billion under the Agreement on the procedure of determining the total price. We believe that this claim is knowingly groundless, because the lease agreement was terminated in the court in July 2009. The land plot was returned to the lessor under an act of delivery and acceptance. We are convinced that our obligations on the payment of the price for the right to enter into a lease agreement of a land plot are discharged.

In January 2011, we filed two claims with the Arbitrazh Court for the Nizhny Novgorod region against the MSPLR seeking to amend the Agreement on the procedure of determining the total price and obligating the MSPLR to enter into a lease agreement on the terms and conditions stipulated by the auction documentation. Our first claim regarding the amendments to the

agreement on the procedure of determining the total price was dismissed by the Court in March 2011. We filed an appeal with the First Arbitrazh Appellate Court in May 2011, but it was dismissed by the Court. In August 2011, we filed a cassation with the Federal Arbitrazh Court of the Volgo – Vyatskiy District. The next hearing has not yet been scheduled. Our second claim regarding the conclusion of a lease agreement was dismissed by the courts in the first and appellate instances. We filed a cassation with the Federal Arbitrazh Court of the Volgo – Vyatskiy District. The next hearing has not yet been scheduled.

In September 2011, a bankruptcy claim was filed against us by LLC “TC “Dzerzinskiy” due to our failure to timely pay legal fees in the amount of RUB 200,000 awarded by an arbitrazh court in connection with earlier court proceedings. The earlier proceedings were initiated by LLC “TC “Dzerzinskiy” to collect amounts outstanding under a promissory note issued by us in the amount of approximately RUB 2.8 million. Under Russian law, the threshold for bringing a bankruptcy claim is low and bankruptcy proceedings may be commenced if claims exceeding RUB 100,000 remain unpaid for more than three months. We believe that the bankruptcy claim was without merit because the amount alleged to be payable by us had already been paid in full to the claimant. The claimant subsequently filed a motion with the court requesting a termination of the proceedings. Based on the motion, the Arbitrazh Court of Moscow terminated the bankruptcy proceedings against us on September 27, 2011. The bankruptcy claim constituted, or could be viewed as, an event of default under some of our credit facilities, and could continue as a default even after the bankruptcy proceedings have been terminated. See “*Risk Factors—Risks Relating to Our Business—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Current status of our credit facilities*”.



## REGULATION OF REAL ESTATE IN RUSSIA

*Below, we briefly describe certain key provisions of the Russian legislation relating to real estate construction and development. This description, however, is not comprehensive and is qualified in its entirety by reference to applicable Russian law.*

### Overview

#### *Definition of Real Property*

Russian legislation defines real estate as land plots, subsoil plots, buildings and structures, undeveloped constructions, and everything that is closely connected with land (*i.e.*, objects that cannot be moved without damage to their use) as well as other facilities which are not connected with land but referred to a real estate by Russian law. Russian federal real estate legislation is primarily based on:

- the Civil Code,
- the Land Code,
- the Town-Planning Code of the Russian Federation (the “**Town-Planning Code**”),
- the Federal Law “On State Registration of Rights to and Transactions with Real Property,”
- the Federal Law “On Mortgages” (the “**Mortgage Law**”),
- the Federal Law “On State Cadastre of Real Estate,” and
- the Federal Law “On Turnover of Agricultural Land.”

Regional legislation should not contradict Russian federal law; in practice, however, certain aspects of Russian regional legislation may contradict federal law.

#### *State Registration of Rights to Real Property*

Since 1998, under Russian law, ownership rights to and certain transactions with real property require state registration in the Register. The rights and the transactions that are subject to state registration in the Register include, but are not limited to, the following: the right of ownership to newly-built buildings and facilities, the right of ownership to land plots, transfer of title to real property through some sale and purchase transactions, mortgage agreements and land plot and building lease agreements for terms of over one year. Rights to real property and transactions therewith are registered by the department of the registration authority (*i.e.*, the Rosreestr) in the relevant territory where the property is located. Rights to real property that are subject to registration legally exist upon the relevant state registration. Absent state registration transactions with real property have no legal effect and rights to real properties are not deemed to be created.

Information from the Register is publicly available and can be utilized to confirm registered ownership rights. The Register contains important information about the registered property, including, among other things, a description of the real property, the owner's name and any registered encumbrances on the property. State registration is evidenced by a Certificate of State Registration as well as an extract from the Register. Registration in the Register represents an entitlement to the issuance of a Certificate of Registration of Rights. Registered rights to the real property may be challenged in court if the grounds for provision of the ownership or other rights are invalidated.

Ownership or other rights that were acquired before 1998, prior to the requirement for state registration, are deemed valid without such registration. Therefore, the Register is not comprehensive, as ownership or other rights acquired before 1998 will most likely not be included in the Register. At the same time, ownership or other rights acquired before 1998 may be voluntarily registered at the discretion of the owner. In addition, such rights will be subject to obligatory state registration in some cases; for example, in the event that a transaction with respect to such rights is entered into.

With respect to buildings, state registration is usually only carried out on a completed building. Although it is possible to register a building under construction as an unfinished construction, in practice this is cumbersome and very rarely happens, not least because subsequent state registration of the completed building is still required. In addition, registering an unfinished building is relatively new under Russian law and is therefore not widely done. Only when state registration is completed a building may be disposed of, mortgaged or leased. Any transfer of ownership must also be registered to be effective.

The state registration must normally be completed by the authorities within one month of any properly documented application. If, however, registration authorities doubt whether grounds for such registration are present, the authorities may demand supplemental documentation or an amended application and suspend registration for one month. Such registration may be rejected in certain cases provided by law; in particular, if our application does not comply with the applicable requirements.

Under Russian law, State-owned land may be owned by federal, or regional authorities, whereas local lands may be owned by municipal authorities. Historically, such State-owned lands have not been registered in the name of any particular state authority. However, in 2001, the Russian Federation began a delineation process whereby such State-owned lands are to be registered in the name of a particular authority, either federal, regional or municipal. This delineation procedure has yet to be completed.

### ***Ownership of Real Estate***

Russian law recognizes the right to own, to use and to dispose of real estate, such as buildings and underlying land. Russian law makes an important legal distinction between land and buildings, which are treated as separate legal interests.

Both the Civil Code and the Land Code permit private land ownership and the transfer of land from one person to another. The Land Code generally provides that foreigners may own land on the same terms as Russian nationals, save for certain exceptions. The most notable exception is a prohibition on foreigners owning land near Russia's borders and in certain other territories specified by a federal law. In addition, Russian law prohibits foreign owners, as well as Russian companies with more than 50.0% foreign charter capital, from acquiring ownership title to agricultural lands in Russia.

Only land plots with a state cadastre number, which is given upon registration of a land plot in the Real Estate Cadastre that records the details of land plots such as their measurements and boundaries, may be traded in accordance with sale and purchase agreements. Most land in Russia has not yet been incorporated into the Real Estate Cadastre.

The Land Code establishes the procedure for privatizing both state and municipally owned land. The Federal Law "On Entry into Force of the Land Code" establishes the maximum price that owners of buildings on a land plot may be required to pay for such underlying land plot. The price depends on the size of the population in the area where the land plot is located. In the city of Moscow, for instance, the maximum price for the purchase of land plots underlying buildings is thirty times the amount of the applicable land tax per unit of area of the land plots. These rules on price determination are effective until 1 January 2012.

Under the Land Code, legal entities may generally have one of the following rights with regard to land plots: (i) ownership right; (ii) leasehold right; or (iii) right of perpetual use. Legal entities may also have a right of free use for a fixed term or a private servitude. Public servitudes may be imposed and upheld by federal or local authorities. Although ownership rights to land plots are increasing, they remain relatively rare in most parts of Russia. The Moscow Governments, for instance, own the majority of the underlying land in Moscow, and owners of buildings typically enter into lease agreements with the city government.

Most of the land earmarked for private development is currently held by investors who have acquired a lease from the relevant state or municipal authorities. Although some legal entities may also have obtained a right to perpetual use of land prior to the enactment of the Land Code, such an interest in land is relatively rare in connection with property development markets in Moscow. In addition, the Land Code generally provides that legal entities (excluding state and local institutions, certain State-owned enterprises and State, regional and municipal authorities) using land pursuant to a right of perpetual use must either purchase the land from, or enter into a lease agreement relating to the land with, the state or municipal owner of the land by January 1, 2012.

In general, everyone may own a building without any discriminatory restrictions, including foreign companies. An owner of a building is generally allowed to sell or lease it without any requirement to obtain state consent unless such sale falls within the remit of the FAS, in which case consent is required.

Under Russian law, the ownership of a facility, such as a building, can be separate from the ownership of the underlying land on which the facility stands. However, the sale of a building automatically gives the purchaser a right to use the underlying land on the same conditions and to the same extent as the previous owner of a building. In such a case, the owner of a building has to formally establish the right to use the land plot by virtue of an ownership right or lease right, as applicable, by entering into contractual arrangements with the land owner. In addition, the owner of a building located on another party's private land has a pre-emptive right to buy or lease such underlying land.

The law of the city of Moscow "On Land Use in the City of Moscow," enacted on December 19, 2007, provides that the exclusive method of granting rights to land by the Moscow Government is by a grant of leasehold interests to such land except in cases where a federal law mandatory prescribes that ownership (freehold) right, the right of permanent use or the right of free of charge temporary use to the land plot, must be granted. Similarly, the previous regulation on the land use and construction in the city of Moscow which had been in effect since May 2003 provided that the preferred method of granting rights to land by the Moscow Government was by a grant of leasehold interests to such land). In practice, developers generally become owners of the buildings/facilities on the land in Moscow, but do not become owners of the land on which such buildings/facilities are located. At the same time, there is also private ownership to the land in Moscow, which, however, remains relatively rare. Russian and non-Russian persons and legal entities may acquire land held by federal, regional or municipal authorities for the development and construction of new buildings. The Land Code prohibits refusal by state or local authorities to grant rights to land plots for construction purposes except where the sale of a land plot is prohibited (for example, certain land plots have been specifically withdrawn from circulation and thus are prohibited from being leased) or restricted (certain land plots may not be transferred into ownership but may be leased) by federal law, or the land plots are reserved for state or local needs. Any such refusal may be appealed in the Russian courts.

Russian law provides that private land or buildings may be expropriated for "State or municipal needs." The owner of expropriated real estate is entitled to one year's advance notice together with payment of the full market value determined by agreement with the respective state or municipal authority or by decision of a court and compensation for any other losses suffered.

### *Leases*

It is generally possible for anyone to lease land throughout Russia on terms which are regulated by the Civil Code and the Land Code. Lease terms vary, although lease agreements will often provide for a right of renewal on expiry. Most of the land leases concluded in the Moscow Metropolitan Area provide that, upon expiration of the lease, the tenant has a pre-emptive right to conclude a new land lease agreement with the respective city or regional authorities on the terms and conditions agreed between both parties to the agreement. A lease of real estate, including land, for a term of one year or more must be registered in the Register. A real estate lease concluded for less than one year does not require such registration. Rental rates for private land are not restricted by legislation. Where, however, the land is owned by the state or municipality, the rates are unilaterally determined generally, on an annual basis, by the owner. The transfer of ownership of land will not change the terms of a lease granted over it.

### *Mortgages*

Under Russian law, a mortgage is a form of security taken over real estate to ensure due performance of a monetary obligation. A mortgage agreement must be registered with the Register and takes effect as of such registration. If the debtor defaults, the mortgagee can generally pursue a claim in Russian courts or can levy execution in an extrajudicial procedure on the basis of an agreement of the parties for the sale of the mortgaged property and for settlement of its claim out of the proceeds of such sale. The agreement on extrajudicial procedure can either be made simultaneously with entering into the mortgage agreement (e.g. the relevant provisions can be incorporated into the mortgage agreement) or be entered into by the parties as a separate contract. However, the Mortgage Law specifically prescribes that the agreement providing for extrajudicial execution of the mortgaged property may only be valid provided that the mortgagor has given a notarized consent to execution through the extrajudicial procedure. In the event of bankruptcy, the claims of a mortgagee will be satisfied from the value of the property mortgaged to such mortgagee. See "*Description of Share Capital and Certain Requirements of Russian Legislation — Distributions to Shareholders on Liquidation.*"

A mortgage of a lease normally requires the landlord's consent. However, a mortgage of a lease of a State- or municipally-owned land plot for a period of more than five years typically requires only a notification to the tenant (and not its consent). Unless the mortgage terms provide otherwise, a mortgage of land applies to the mortgagor's buildings and undeveloped constructions (registered as real property) located on the land as well. In addition, if a land plot or buildings are acquired or

constructed using debt finance provided for the specific purpose of financing the acquisition or construction, then the land and buildings are deemed to be mortgaged in favor of the lender unless otherwise provided by law or by agreement of the parties. The right of mortgage is created when the borrower's ownership or lease rights to the land plot are registered in the Register. Furthermore, if the acquisition or construction of a building is financed by borrowed funds provided for such construction or acquisition, the ownership or lease rights to the land plot on which such building is located are mortgaged to the lender by operation of law, unless otherwise provided by agreement of the parties.

### ***Liabilities of Persons Holding Rights to Land and Buildings***

Owners of land plots and buildings are required to comply with federal, regional and local legislation, which includes, among others, environmental, public health, fire, residential and town-planning rules and regulations. The owner of a building generally bears all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land plot in accordance with its permitted use (*i.e.*, as provided by zoning requirements), not cause harm to the environment, assume the liability and financial costs relating to compliance with various land use standards and not allow the pollution of, littering on or degradation of the land plot. Regional or local legislation, or an investment or lease contract entered into with the regional or local authorities, may also subject the owner or the developer as the future owner of the buildings to be constructed under the investment or lease contract to various financial obligations, such as the financing of local engineering services, transportation and social infrastructure, as well as reimbursing certain expenses to the previous tenants of the land plot.

## **Construction and Development**

### ***General Provisions***

Construction and development in Russia is a complex multi-stage process, which involves compliance with many regulatory requirements, and obtaining authorizations from a large number of authorities at the federal, regional and local levels. Development in Russia is primarily governed by the Town-Planning Code, Civil Code, Land Code, and other federal laws and regulatory acts. In addition, construction activity is subject to regional and local regulation. Under Russian federal law, the basic steps required for commencement of construction projects are (i) approval of town-planning documentation, (ii) engineering research, (iii) approval of the detailed design documentation and the results of engineering research, and (iv) issuance of a construction permit. Such steps must be exercised in the listed sequence. For example, detailed design documentation is developed on the basis of the results of engineering research, while a construction permit can only be issued once the detailed design documentation and the results of engineering research have been approved. In addition to the above basic approvals, a developer must have rights to the land in order to begin construction.

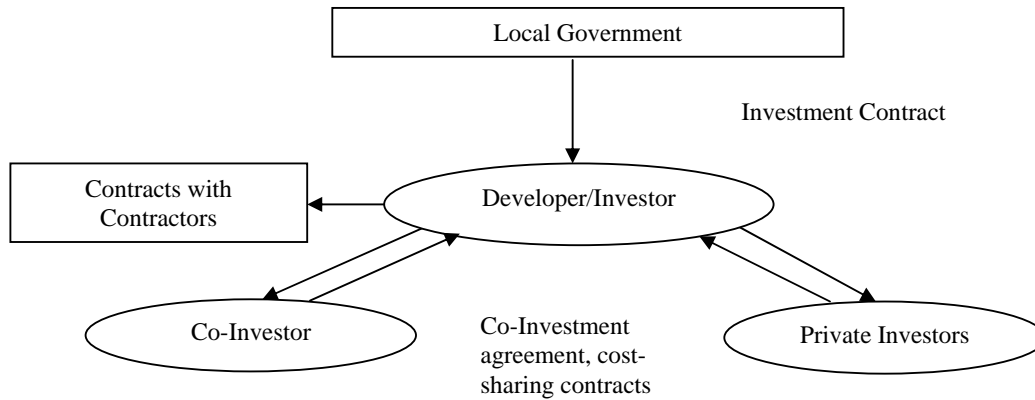
### ***Licensing***

Since January 1, 2010, activities relating to the construction and development of buildings in Russia are not subject to licensing any more. Instead, each developer must participate in a non-profit self-regulated organization and obtain a certificate of approval from such organization. Certificates of approval are obtained with respect to the developer and certain type or types of activity, not to a particular development project. Pursuant to the Town-Planning Code, any structural engineering, construction and engineering survey of buildings, which affect safety of buildings, is subject to approval by self-regulating organizations.

In addition, any construction activity on a particular development project may only be performed under the construction permit issued by the competent governmental bodies pursuant to agreed and approved project documentation.

### ***Participants in the Construction Process***

The construction process in Russia involves local government, the developer (investor), the purchaser and the contractor (general contractor and sub-contractors). The chart below sets forth the structure of legal relations between such participants.



### ***Stages of Construction***

The main stages of the building construction process typically include the following:

- entering into an investment contract with the local authorities;
- obtaining the land rights;
- preparation of project documentation and obtaining infrastructure/utilities documentation;
- obtaining a construction permit;
- performing construction works;
- obtaining an operational permit; and
- registration of title to the new building.

Some of these key stages are described in more detail below.

Title to a building is first conferred on the developer once the building is constructed. Furthermore, a building-owner has the right under the Land Code to require the owner of the land on which the building is situated to sell or lease that land to the building owner for a fixed price represented by the land tax payable for that land multiplied by a coefficient set out in the relevant regulations.

Accordingly, if we have obtained development rights that allow us to carry out a project and complete a finished building, we will not typically need to acquire freehold or leasehold title to the underlying land at the commencement of the project because under the Land Code we can require the landowner to sell or lease the land to us at a fixed price after our project is completed.

### ***Investment Contracts***

As a general rule, an investment contract is a written agreement between a local administration and a developer (investor) that, among other things, defines the principal terms of proposed construction of a property by the developer. Generally, the investment contract provides for a certain “share of the city (region)” in the property to be constructed (*i.e.*, the number of square meters that will belong to the respective city government). Currently in Moscow, under an investment contract, Moscow Metropolitan Area authorities generally retain an interest of up to 50% in the completed building or structure, although the Moscow Metropolitan Area authorities usually agree to sell its share to the developer or substitute it with other property. Such city or region share may be lower (up to zero) if the developer agrees to incur additional expense in relation to the development (*i.e.* city or social infrastructure improvements). In some cases, the authority consents to the developer buying out its share of building or facility prior to, or upon, completion of construction.

The investment contract formalizes a development opportunity and the general approval by the governmental bodies of a specific development project. The actual realization of this project, however, depends on procurement of various procedures, obtaining numerous approvals and consents, and fulfillment of other requirements. In some cases, the investment contract is entered into at a later stage of construction and some projects are carried out without investment contracts.

Russian legislation does not provide a definition of the investment contract. As a result, Russian courts, based on the contents of a specific investment contract may qualify it as a general partnership agreement, joint-venture agreement, construction contract or a combination of such contracts or other contracts stipulated by the Civil Code. The investment contract would generally provide for the types of properties that could be constructed at the site and approximate area of each such property. However, the actual types and areas of properties which would be allowed for construction under the respective construction permit may substantially differ from those fixed in the investment contract. See also *“Risk Factors — Risks Relating to Our Business — Real estate appraisals with respect to the properties and projects included in this Information Memorandum may not reflect their actual market values because determining such values is an inherently subjective process. In addition, an appraisal may not be directly comparable to those given in respect of similar portfolios held by other real estate development businesses in the Russian market as a result of differing assumptions and methodologies.”*

### ***Obtaining Land Rights***

A developer must have land rights in order to begin construction. Land in the Russian Federation is divided into the following specific categories depending on the designated purpose of such land: (i) agricultural land; (ii) settlement land; (iii) industrial land; (iv) protected land; (v) forestry land; (vi) water front land; and (vii) reserve land. The Land Code requires that each category of land must be used in accordance with its designated purpose. Normally, to carry out a commercial or residential development, property developers need to have the land plots (on which their buildings/structures are located) designated as settlement or industrial land. The main procedures for changing the designated purpose of land are set forth in the Land Code and the Federal Law No. 172-FZ “On Reclassification of Land or Land Plots” which was adopted at the end of 2004.

As a general rule, land rights for development purposes may be obtained through an investment contract. On the basis of investment contract, the land lease is granted for the purpose of carrying out the construction as well as exploitation of the constructed property on the relevant land plot. As a general rule, land lease for residential construction should be granted by auction. Under the Town-Planning Code, the location of a new property must comply with the relevant town planning documentation that defines the functional zoning and town-planning rules of organization and use of the territory.

### ***Construction Permit***

Construction on an allocated land plot may only be carried out after obtaining a construction permit either by the owner or by other person having the rights over the land plot. The permit is usually granted by authorised Russian federal, regional or municipal authorities depending on the type, size and significance of the project and land ownership of the construction site. The construction permit is a final construction approval which entitles the developer to commence construction on the land plot and, therefore, such permit needs to be obtained before construction commences. Failure to obtain such a construction permit prior to the commencement of construction is a violation of Russian law which may lead to imposition of administrative fines against the developer. Furthermore, if any building is constructed without the necessary construction permit and certain other construction documentation and authorisations from Russian governmental authorities may result in bring claims to demolish the building as unauthorised construction and bring the site into the preconstruction condition. Obtaining a construction permit is a multistage process, which includes, among other things, obtaining approvals on design documentation and the results of engineering research from and registering the project documentation with a number of governmental bodies including architectural and urban development agencies, environmental management and protection agencies and governmental bodies that oversee public health issues. The construction permit is issued for the period established in the project on organizing construction of a capital construction object and may be extended. To the extent the scope and nature of the project change, the construction permit may be amended. The construction permit may be withdrawn before its expiration date; in particular, in the event of a material breach in the project documentation, building and architectural rules and regulations and/or on other grounds.

Certain preparation works may be commenced on the site of future construction before obtaining a construction permit. In this event it is necessary to obtain an order for preparation and maintenance of the construction site. Upon expiration of the order or in the event that the nature of the works changes, the order can be prolonged or amended. The order can be withdrawn in the event of a material breach in the project documentation, building and architectural rules, failure to remedy breaches detected by

the respective authorities and failure to comply with the nature of works specified in the order. In the absence of the order it is forbidden to start any works on the site.

### ***Operational Permit***

Upon completion of construction, the building must be approved by the representatives of various authorities, developer, executive authorities, contractors, construction designers, operating organization, public health authorities, state fire supervision services, architectural and urban development agencies, environmental management and protection agencies and other state authorities. When such approval is granted and an operational permit is issued, then the final measurement of the premises for the purposes of state registration is completed and the rights to the completed property, including the rights of the private investors who financed the construction, may be registered with the Register.

### ***Construction in the City of Moscow***

The Moscow Government has adopted rules and regulations covering the real estate construction and development process that are specific to Moscow and that often differ from what is required under federal legislation. Construction in the city of Moscow is governed principally by the laws of the city of Moscow “On Land Use in the City of Moscow” and “Town-Planning Code of the City of Moscow.” In accordance with the Moscow legislation, as a general rule investment contracts for the construction of new buildings or reconstruction of buildings in Moscow (in the case of private financing) may be entered into through tender procedures.

Moscow legislation distinguishes between construction by developers who have already obtained land lease rights for construction purposes and those who have not yet obtained such rights to the land. A potential developer which leases a land plot for the purpose of construction and intends to construct a building thereon must apply to the relevant governmental authorities for a city development plan of the land plot. In accordance with Moscow legislation, a city development plan of the land plot is a fundamental approval which defines the possible use of the land plot and the maximum parameters of the permitted construction.

Developers which do not have land lease rights that allow for construction have to obtain such rights in order to proceed with construction. Generally, in practice, a developer receives land lease rights for three to five years (*i.e.*, for the period of construction) from the Moscow 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. Subject to the successful implementation of the land plot development and the fulfillment by the investor of the various obligations under the investment contract with the Moscow Government, the investor receives land lease rights for a term of 25 to 49 years, at the discretion of the Moscow Government.

The year 2011 has been marked by significant changes in construction requirements related to construction in the center of Moscow and the commencement of the revision of Moscow and Moscow region boundaries.

In May 2011, Mayor Sobyenin publically announced several far-reaching policies which would introduce substantial restrictions on construction activities in the center of Moscow and impose additional social infrastructure obligations on developers. Mayor Sobyenin also expressed the need to finalize all ongoing construction projects in the center of Moscow within three years. In line with these policies, on May 11, 2011, Mayor Sobyenin issued an order suspending the issuance of construction permits in the historic part of Moscow (located within the Garden Ring Road).

In addition, on July 1, 2011, the President of the Russian Federation instructed Moscow Mayor Sobyenin and Moscow region Governor Mr. Gromov to submit proposals for the extension of the territory of Moscow in the context of the potential creation of a new Moscow federal district. The proposals submitted to the President provide for the extension of the territory of Moscow from 107 thousand hectares to 251 thousand hectares, *i.e.* by 2.35 times, to the south-west of the existing territory of Moscow. As of the date of this Information Memorandum, the Moscow and Moscow region authorities have agreed on the transfer of approximately 720 hectares from the Moscow region to Moscow and of approximately 328 hectares from Moscow to the Moscow region. The respective agreement was signed by the Moscow and Moscow region authorities on June 30, 2011, approved by the Dumas of the two regions on July 6, 2011 and July 7, 2011, respectively, and by the Russian Federation Council on July 13, 2011. The Moscow and Moscow region authorities are now developing a more detailed plan related to the implementation of the project. See “*Risk Factors — Risks Relating to Our Business — Russian federal, regional and local government authorities have broad discretion over the issuance of development rights and any deterioration of our relationships with governmental authorities may have a material adverse effect on our business*”.

## **Residential Construction**

### ***Key Features***

Until the early 1990s, most apartments in the Russian Federation were state or municipally owned. However, since that time many apartments have been privatized or constructed by investors, and are now in private ownership. Generally, a land plot for residential construction should be granted by auction. Once the lease agreement is executed or if there is an existing lease agreement, the developer must prepare the permitting documentation for construction, which consists of applications for various approvals and permits from various federal and local authorities, including environmental, architectural, land, sanitary, geological and other authorities. Project documentation for residential construction is subject to state expert approval.

In order to obtain the operational permit, the developer should, upon completion of construction, file an application with the state authority that issued the construction permit and present the documents confirming that the development has complied with the initial permit and project documentation. Final measurements of the premises in the completed building for the purpose of state registration must be carried out by the Bureau of Technical Inventory. The parties to any relevant investment contract are also required to execute the final protocol certificate confirming that all of their respective obligations under the investment contract have been performed.

The operational permit, along with the resolution of the local authorities, the investment contract (and, if applicable, the final protocol certificate relating to it), and the measurement documentation prepared by the Bureau of Technical Inventory serve as the basis for the state registration of the ownership of the residential premises. In most cases, rights of individuals to apartments in the constructed building arise at the moment of the state registration on the Register. Upon such registration, the owner of the apartment additionally receives the right to a share in the ownership of the common areas of the building, halls, stairs and elevators, as well as electric and engineering equipment located outside or inside the apartment that is used by more than one apartment.

Upon completion of a development, a Cooperative or a Partnership may apply to the state authorities for a gratuitous acquisition of the ownership rights to the land plot at which the completed development is located (irrespective whether such land plot is held by the state or municipal authorities or is in private ownership). The land plot to be transferred is measured as a perimeter shear of the building. Once the rights to the land plot are acquired, the lease agreement with a developer is terminated. A Cooperative or a Partnership may also apply for obtaining ownership or lease rights to the adjacent territory. In this case, the rights are granted in return for the payment of purchase price or rent.

### ***Financing and Sale***

Residential construction may be financed both by funds provided by the developer and third parties. Funds may be raised, among other ways, through borrowing or direct investment in the construction by outside investors. Raising funds from future owners of apartments at various stages of construction has been one of the principal ways of financing residential construction in Russia. In the majority of development projects in the past nearly all apartments were sold in advance immediately after the beginning of the construction process by means of execution of co-investment contracts, contracts on share participation in the construction or joint activity contracts with private investors. This process led to contradictory results in court and offered little protection to private investors from unscrupulous developers.

This type of financing is regulated by the Cost Sharing Law. The Cost Sharing Law prohibited developers from raising funds prior to (i) obtaining a construction permit, (ii) publishing a project declaration (summary information on the developer and its project), and (iii) having registered its rights to the land plot intended for construction.

The Cost Sharing Law aims to protect the rights and interests of corporate and, especially, private investors in cost sharing projects, among other things, by providing for the following:

- cost sharing financing may be raised only by a developer who has received a construction permit, published a project declaration and registered its rights (either ownership or leasehold) to the land plot intended for the construction;
- cost sharing investment contracts are subject to state registration;
- investors' funds are secured against the developer's default under the investment contract by (i) mortgage of the land plot and the project under construction, or (ii) bank's surety;



- individual investors are entitled to an increased statutory interest payable by the developer who failed to perform under the investment contract;
- public disclosure of information about the developer and the project at least 14 days before entering into the cost sharing contract with the first customer is established; and
- administrative liability is contemplated for developers who raised cost sharing financing in violation of the Cost Sharing Law, including, among other things, the failure to obtain a construction permit, publish a project declaration or make full disclosure in such a declaration and comply with reporting requirements.

## **Real Property Taxation**

### ***Corporate Property Tax***

The corporate property tax is established by the Tax Code. Entities subject to the tax are legal entities, including foreign legal entities and organizations, owning certain types of property including real estate located in the territory of the Russian Federation. The tax rate is established by regional authorities, but cannot be higher than 2.2%. As of the date of this Information Memorandum, the tax rate in most major regions, including Moscow and the Moscow region, is 2.2%. Generally, the taxable base is the average annual net book value (generally calculated as the historical cost per statutory accounts less statutory depreciation) of the property. In general, the taxable base includes assets qualified as fixed assets under Russian financial accounting rules. However, land and certain non-productive types of property are specifically excluded. The tax is payable on a quarterly basis.

### ***Land Tax***

The land tax is also established by the Tax Code. Those subject to the tax include individuals and legal entities which have the ownership title, permanent use rights and lifetime inheritable possession rights to land plots. The tax rate is established by the local Russian authorities, but may not be higher than (i) 0.3% for land plots categorized as land for agricultural use, land under housing facilities and land under personal subsidiary plots, horticulture, cattle breeding and summer cottages, and (ii) 1.5% for other land plots. The land tax is calculated based on the cadastral value of the land plot. For legal entities, the tax is payable on a quarterly basis.

### ***Land Rent***

The rules for determining the amount and the order of rent payments for land owned by the Russian Federation, Russian regions or municipalities are imposed by the relevant public authority. In addition, local authorities are empowered to require payment of a separate fee by the lessee for the right to conclude a lease agreement.

### ***Tax on Residential Properties***

Currently, individuals pay an annual property tax on real estate property of which they are the legal owner, at rates between 0.1% and 2.0% of the inventory value of the property. Generally, the taxable base is less than the market value of the property.

Russian governmental authorities are currently debating the imposition of a tax on real property to be calculated on the basis of the market price of such property. The President of Russia in his budget message of 29 June 2011 expressed as one of the goals of Russian fiscal policy for 2012 – 2014 to introduce a local tax on real estate. The tax would be calculated on the cadastral value of real estate, and would therefore provide for a fair taxation of real estate, regardless of market value. Adoption of such a tax could have a material effect on the Russian market for residential properties.

## DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

### Overview

Our current charter was approved by the General Shareholders' Meeting on October 2, 2009 and was duly registered in the Unified State Register of Legal Entities on October 30, 2009. Our management bodies are the General Shareholders' Meeting, the Board of Directors, the Management Board and the President.

The General Shareholders' Meeting is considered to be the supreme governing body of our Company pursuant to the Joint Stock Companies Law. The authority of the General Shareholders' Meeting is, however, limited to those matters that are expressly set out in the Joint Stock Companies Law. The Board of Directors is responsible for directing the general management of the Company, coordinating our strategy and exercising general supervision over our operations. The Management Board chaired by the President is responsible for the day-to-day operations of the Company. A brief description of each of the General Shareholders' Meeting, the Board of Directors, the Management Board and the President is set out below.

### General Shareholders' Meeting

General Shareholders' Meetings are convened by the Board of Directors at least once a year. The annual General Shareholders' Meeting elects members of our Board of Directors, approves our annual reports and makes other decisions that require a vote by holders of our voting Shares. For more details, see "*Description of Share Capital and Certain Requirements of Russian Legislation — General Shareholders' Meetings*".

### Board of Directors

The Board of Directors of the Company is responsible for directing the general management of the Company, with exception of those matters that are reserved by the Joint Stock Companies Law and our charter for the General Shareholders' Meeting. For more detailed information on the authority of the Board of Directors, see "*Description of Share Capital and Certain Requirements of Russian Legislation — Board of Directors*."

Our Board of Directors currently consists of nine directors. Three members of our Board of Directors are independent directors ("**Independent Directors**"). Seven board members are independent directors under the criteria set out in the Joint Stock Companies Law. The following table sets out the name, year of birth and position on the Board of Directors for each member of the Board of Directors:

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>
Vladislav Mamulkin <sup>(1)</sup> .....	1973	Chairman of the Board of Directors
Lee Timmins <sup>(2)</sup> .....	1961	Independent Director
Anna Kolonchina <sup>(3)</sup> .....	1972	Director
Pavel Poselenov .....	1967	Director
Robert Tsenin .....	1949	Independent Director
Sergey Bessonov .....	1976	Director
Zumrud Rustamova <sup>(4)</sup> .....	1970	Independent Director
Alexander Gubarev.....	1973	Director
Dmitry Skryabin <sup>(5)</sup> .....	1979	Director

<sup>(1)</sup> Member of the Audit Committee and the Remuneration and Personnel Committee of the Board of Directors.

<sup>(2)</sup> Chairman of the Remuneration and Personnel Committee of the Board of Directors.

<sup>(3)</sup> Member of the Audit Committee of the Board of Directors.

<sup>(4)</sup> Member of the Remuneration and Personnel Committee of the Board of Directors.

<sup>(5)</sup> Chairman of the Audit Committee of the Board of Directors.

All of our directors were elected or re-elected on September 12, 2011 by the Extraordinary General Shareholders' Meeting. Our current directors hold office until the date of the next annual General Shareholders' Meeting. The business address of each of our directors is 19 Barrikadnaya Street, building 1, Moscow, 123242, Russian Federation.

***Vladislav Mamulkin – Chairman of the Board of Directors of the Company***

Vladislav Mamulkin has been Chairman of the Board of Directors since 2011. He graduated from the Moscow State Institute of International Relations with a degree in international economic relations in 1995 and from the Wharton Business School, University of Pennsylvania (USA), with a Master of Business Administration degree in 2003. From 2004 to 2010, Mr. Mamulkin worked as a managing director at Alfa Capital Partners. Since 2010, he has been a managing director of the Moscow representative office of Nafta Moskva (Cyprus) Limited LLC. From 2005 to 2010, Mr. Mamulkin has also served as member of the boards of directors of Russian Fitness Group, CJSC Lunch, Noble Gibbons and United Bakers (currently, Kellogg's), and as a supervisor on the management board of the Nezavisimost Group of Companies.

***Lee Timmins – Independent Director of the Company***

Lee Timmins has served as our Independent Director since 2006 and as chairman of the Remuneration and Personnel Committee since 2011. Mr. Timmins graduated from the University of Texas in Austin, Texas (USA) with a Bachelor degree in Business Administration in 1984 and from Southern Methodist University in Dallas, Texas (USA) with a Masters degree in Business Administration in 1987. Since 1987, Mr. Timmins has managed the implementation of real estate projects in the U.S. and Eastern Europe. He has worked for Hines International Inc. since 1988 and has been the head of its Moscow representative office since 1993.

***Anna Kolonchina – Director of the Company***

Anna Kolonchina has been a member of the Board of Directors since 2010. She graduated from the Moscow Financial Institute (currently, the Financial University under the Government of the Russian Federation) in 1994 with a degree in accounting and audit. In 1996-1999, Ms. Kolonchina served as chief accountant at LLC B.T. Capital, and in 1999-2000, she worked as deputy chief accountant and chief accountant at Deutsche Bank LLC (Moscow). From 2001 to 2008, Ms. Kolonchina was the director for debt and developing markets at Deutsche Bank AG (London). In 2008, Ms. Kolonchina was a managing director of Wainbridge Limited, and, from 2008 to 2010, she was the Group's Vice-President for Economic Affairs and Finance. Since 2010, she has been a managing director of the Moscow representative office of Nafta Moskva (Cyprus) Limited LLC, a member of the board of directors of JSC Bank International Financial Club, a member of the board of directors, audit and remuneration committees of Uralkali and a member of the supervisory board of CJSC Belarusian Potash Company. In 2010-2011, she was a member of the board of directors of OJSC Polyus Gold, and since 2011, she has been a member of the board of directors of Polyus Gold International Limited.

***Pavel Poselenov – Director of the Company, President (Chief Executive Officer) and Chairman of the Management Board of the Company***

Pavel Poselenov has been Chairman of the Management Board and President (Chief Executive Officer) since 2009 and a Director since 2010. He graduated from the Lomonosov Moscow State University in 1991 with a degree in chemistry and from the Non-Governmental Educational Institution Inter-branch Technological Institute in 2006 with a degree in finance and lending. From 2001 to 2009, Mr. Poselenov was the general director of the Industrial Insurance Group OSNOVA. At the same time, he was a member of the Presidium of All-Russian Insurers Union, chairman of the committee for insurance issues in the construction sector at the Russian Builders Association. In 2008, he was the general director of PIK Severo-Zapad. From December 2008 to July 2009, he was the Group's vice-president for coordination of activities before his appointment as president in July 2009. In 2009, Mr. Poselenov served as Deputy Chairman of the Management Board of the Company. Since 2006, he has held various offices in the companies of the Group, including his current positions of a member of the board of directors of PIK-Region and chairman of the boards of directors of DSK-2 and DSK-3.

***Robert Tsenin – Independent Director of the Company***

Robert Eugene Tsenin has served as our Independent Director since 2011. He graduated from the University of Sydney in 1973 with a bachelor's degree in economics, from the University of London in 1976 with a degree in mechanical economics and statistics, from the London Business School in 1977 with a degree in corporate finance and from the City University of London in 1978 with a degree in general technology of petroleum. From 1976 to 1997, Mr. Tsenin held various positions at Royal Dutch Shell (London), AGC (Sydney), First Chicago Bank (Chicago), County NatWest Bank (Sydney) and Goldman Sachs. From 1997 to 2003, he served as finance director and executive director at Lend Lease Corporation Ltd., Sydney, and from 2003 to 2005, he worked as a senior adviser at Lazard Plc, London. Since 2005, Mr. Tsenin has been the chief executive officer of Centro Properties Group.

### ***Sergey Bessonov – Director of the Company***

Sergey Bessonov has been a member of the Board of Directors since 2011. He graduated from the State Finance Institute (currently, Financial University under the Government of the Russian Federation) in 1998 with a degree in finance and lending, and obtained a candidate of economic sciences in 2003. From 2000 to 2001, Mr. Bessonov was the lead economist at the lending department of OJSC Sberbank of Russia. From 2001 to 2006, he worked at OJSC Bank Uralsib, rising from lead specialist to a head of a business division responsible for project and structured financing. During the period from 2006 to 2009, Mr. Bessonov served as head of the project financing department of Nomos-Bank. Since 2009, he has been the head of the real estate financing department of OJSC Sberbank of Russia. Mr. Bessonov is also member of the board of directors of CJSC Sberbank Leasing.

### ***Zumrud Rustamova – Independent Director of the Company***

Zumrud Rustamova has served as our Independent Director since 2011. She graduated from the Moscow Institute of Economics and Statistics (currently, the Moscow State University of Economics, Statistics and Informatics) with a degree in statistics in 1992. From 1995 to 1999, she served on the Russian Federation State Committee for Government-Owned Property Administration. From 1999 to 2000, she was Deputy Chairman of the Russian Federal Property Fund. From 2000 to 2004, Ms. Rustamova was Deputy Minister for Property Relations of the Russian Federation and, from July 2004 to 2006, was Vice-President of Siberian Coal Energy Company. Since 2006, she has served as Deputy Chairman of the management board of OJSC “Russian Development Bank” and Deputy CEO of OJSC Management Company Polymetall. Ms. Rustamova is also a member of the board of directors of International Airport Sheremetyevo OJSC, Magnitogorsk Iron and Steel Works OJSC and Bank of Khanty-Mansiysk.

### ***Alexander Gubarev – Director of the Company***

Alexander Gubarev has been a member of the Board of Directors since 2011. He graduated from the Moscow State Institute of International Relations in 1997 with a degree in international business administration and from the University of Michigan Business School in 2001 with a Master of Business Administration degree. He worked in the investment banking sector in Russia and the USA and managed the implementation of investment projects in Russia in the areas of agricultural production and housing and communal services. He currently serves as a head of the representative office of Galahad Advisers Limited in Moscow.

### ***Dmitry Skryabin – Director of the Company***

Dmitry Skryabin has been a member of our Board of Directors and chairman of the Audit Committee since 2011. He graduated from the State University of Management in 2001 with a degree in power industry management, and obtained the first-level CFA in 2003. From 2000 to 2003, Mr. Skryabin worked as senior engineer and then economist at JSC EnergoSetproject. In 2003-2004, he worked as lead analyst for the electric power industry in FINAM Investment Holding. From 2004 to 2005, Mr. Skryabin held the position of manager for planning at Evrazholding, and at the same time served on the audit committee of RJSC UES of Russia and in the board of directors of OJSC OGC-6. From 2005 to 2008, he was a senior equity analyst at LLC Unicredit Aton. Since 2007, Mr. Skryabin has held top positions as an analyst in the power sector in the All-Russia and EMEA rankings by Extel and Institutional Investor. He joined VTB capital in 2008 as head of the electric utility group within the research department, and is currently holding the position of chief trader in the fixed income department. At present, Mr. Skryabin is also a member of the strategy committee of OJSC RusHydro.

### **Audit Committee**

The Audit Committee currently comprises three members of the Board of Directors: Dmitry Skryabin, Anna Kolonchina and Vladislav Mamulkin. Mr. Skryabin serves as the chairman of the Committee. The Audit Committee must be chaired by a non-executive independent director, who may not be the chairman of the Board of Directors. The Audit Committee holds meetings as often as necessary, but at least once every quarter. The Audit Committee is authorised to carry out the following functions relating to the control of our financial and business operations:

- coordination with the Company’s independent auditors and preparation of recommendations for the Board of Directors in connection with the election and removal of the independent auditors and on the fees and scope of services to be provided by auditors;

- coordination with the Review Commission and examination of the Review Commission’s findings on the verification of the Company’s financial activities and annual accounts;
- coordination with the internal control division and issuance of recommendations for appointment of the division’s managers, review of its plan regarding annual checks and the division’s reports;
- review of the Company’s standards and internal controls procedures and provision of appropriate reports and recommendations; and
- assessment of the Company’s financial reports.

### Remuneration and Personnel Committee

The Remuneration and Personnel Committee currently comprises three members of the Board of Directors: Lee Timmins, Zumrud Rustamova and Vladislav Mamulkin. Mr. Timmins serves as the chairman of the Committee. The Remuneration and Personnel Committee must be chaired by a non-executive director, who may not be the chairman of the Board of Directors. The Committee carries out the following functions:

- determination of criteria for appointment of candidates to the Board of Directors, members of the Management Board and the Company’s President and considering potential candidates;
- issuance of recommendations as to the term of service and removal of the Company’s members of the Management Board;
- considering candidacy of the Company’s President, term of his service and removal;
- issuance of recommendations with respect to service contracts for the Company’s President and members of the Management Board;
- assessment of the activities of the Company’s President and members of the Management Board; and
- preparation of proposals on the level of remuneration of the members of the Management Board as well as the Company’s Review Commission, the Company’s President, members of the Company’s Board of Directors and members of its committees.

### Management Board

Our day-to-day activities are managed by the Management Board. The Management Board reports to and is responsible for the implementing decisions taken by our shareholders and the Board of Directors. Among other things, the Management Board coordinates the activities of our subsidiaries, develops and controls the implementation of our investment and financial projects, adopts certain of our internal bylaws and represents us in labor disputes. For more detailed information on the authority of the Management Board, see “*Description of Share Capital and Certain Requirements of Russian Legislation — Management Board.*”

Our Management Board currently consists of five members. The following table sets out the name, year of birth and position on the Management Board of each member of the Management Board:

Name	Year of birth	Position
Pavel Poselenov .....	1967	President (Chief Executive Officer), Chairman of the Management Board
Artem Eyramdzhants .....	1969	First Vice-President
Andrey Rodionov .....	1968	Financial Director
Fedor Sapronov .....	1973	Vice-President for Legal Issues
Konstantin Kuznetsov .....	1963	Vice-President for Industry and Construction

All of our Management Board members were appointed or re-appointed on July 26, 2011 by resolution of the Board of Directors. The terms of appointment for all members expire on July 28, 2012. The business address of each member of our Management Board is 19 Barrikadnaya Street, building 1, Moscow, 123242, Russian Federation.

***Pavel Poselenov – President (Chief Executive Officer) and Chairman of the Management Board of the Company***

See “— Board of Directors” for a brief biography of Mr. Poselenov.

***Artem Eyramdzhants – First Vice-President of the Company***

Artem Eyramdzhants has served as our First Vice-President since 2006 and our Director since 2006. He has also been a member of our management board since March 2006. Mr. Eyramdzhants graduated from the State Finance Institute (currently, Financial University under the Government of the Russian Federation) with a degree in international economic relations in 1992. Before joining the Company in 2002, he worked in the banking sector, holding various executive positions in CJSC United Industrial and Commercial Bank. From 2000 to 2009, he served on the board of directors of Housing Finance Bank. Since 2002, Mr. Eyramdzhants has been a member of our senior management and was also a member of the board of directors of DSK-3, PIK-Region, 480 KGI, 100 KGI and PIK Moskva, and a member of the management board of LLC PIK Holding and DSK-2, all of which are affiliated with PIK Group.

***Andrey Rodionov – Financial Director of the Company***

Andrey Rodionov has served as our Financial Director since 2010. Mr. Rodionov graduated from the Yaroslavl High Military Financial School with a degree in accounting and audit in 1989. From 1994 to 1995, Mr. Rodionov was a chief accountant and financial director at TOO Ankor and from 1995 to 1997, he was manager and head of the department of finance planning and analysis at AOZT Alfa-Eco. From 1997 to 1999, he worked as an auditor of the financial analysis department and the mergers and acquisitions director and financial director at CJSC Vremya and from 1999 to 2000, Mr. Rodionov was the financial director and deputy general director at CJSC FTK Vremya. From 2000 to 2003, Mr. Rodionov was a director of the finance and economics department at JSC Teboil AB in Helsinki, Finland. From 2003 to 2005, he served as financial director and director of the finance department of OJSC GNK Nafta Moskva and, from 2006 to 2008, as director of the finance department of Nafta Moskva (Cyprus) Limited LLC. From 2008 to February 2010, Mr. Rodionov held the position of the managing director of the Moscow representative office of Nafta Moskva (Cyprus) Limited LLC. He also serves on the board of directors of PIK-Region, DSK-2 and DSK-3.

***Fedor Sapronov – Vice-President for Legal Issues of the Company***

Fedor Sapronov has served as our Vice-President for Legal Issues since 2009 and as a member of our management board since 2006. Mr. Sapronov graduated from the Military University of the Russian Ministry of Defence with a degree in law in 1995. From 1995 to 1996, Mr. Sapronov worked for the military justice authorities and, from 1996 to 1997, taught administrative, financial and civil law at the Russian Military University. From 1997 to 1998, he worked as a legal counsel in the banking sector at Joint Stock Commercial Bank SBS AGRO. Mr. Sapronov is a member of a working group on the national project for Available and Comfortable Housing for Russian Citizens. He has been employed by the Group since 1999, when he worked as legal counsel and chief legal counsel at CJSC Legal Agency Profit Center, which provided legal guidance for all major projects of the Company. From 2002 to July 2006, he served as a director of the legal department of LLC PIK Holding. Since 2006, Mr. Sapronov has served as Director and Vice-President for Legal Issues of the Company. Mr. Sapronov is also Chairman of the board of directors of PIK Regional Development and KSRZ, member of the board of directors of DSK-3 and general director of PIK-Region.

***Konstantin Kuznetsov – Vice-President for Industry and Construction of the Company***

Konstantin Kuznetsov has served as our Vice-President for Industry and Construction since 2009. He graduated from the Moscow Institute of Civil Engineering in 1985 with a degree in engineering, construction and technology, and from the State Management University with a Master of Business Administration degree in corporate management and finance in 2005. Since 1988, Mr. Kuznetsov has worked in the Moscow construction industry, rising from a shifter at a concrete products plant to a vice-president of a major company. From 2000 to 2001, Mr. Kuznetsov served as general director of OJSC Zhilservisstroy. From 2001 to 2002 and from 2004 to 2008, he was the general director of OJSC Management of Industrial Enterprises of Glavmosstroy, which was a company managing KZhBK-2, KKZhBI-9, ZhBI-21, three large construction enterprises. From 2002 to 2004, he held the position of a vice-president of Glavmosstroy. He was awarded the title “Honorary Employee of Moscow Industry” for his services.” He was also awarded the title “Honourable Builder of Russia.” Mr. Kuznetsov has joined the Company in 2008. He currently is member of the management boards of PIK Avtotrans and MFS-PIK, and member of the boards of directors of DSK-2 and DSK-3.

## President

Pursuant to the Joint Stock Companies Law and our charter the President of the Company is responsible for implementation of decisions of the General Shareholders' Meeting, the Board of Directors and the Management Board. Our President is our chief executive officer and is the chairman of the Management Board by virtue of being the President. The President acts on behalf of the Company without a power of attorney, representing its interests, entering into transactions, disposing of assets, opening bank accounts, approving staffing structure and issuing internal orders and directives. Our current President is Mr. Poselenov.

## Review Commission

The Review Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. Members of the Review Commission are nominated and elected by the General Shareholders' Meeting for a term of one year. A member of the Review Commission may not simultaneously serve as a member of our Board of Directors or accounting commission or as our President or Chief Financial Officer. The Review Commission has three members: Lyudmila Monetova, Elena Ivanova and Olga Boytsova.

## Disclosure Committee

In August 2011, we established a formal disclosure committee (the “**Disclosure Committee**”) and adopted a regulation for disclosure of inside information. Our Management Board is empowered to determine the composition of the Disclosure Committee and to appoint the chairman and secretary thereof, the latter of which acts as the chief disclosure officer. The Disclosure Committee intends to ensure that we implement a unified information and disclosure policy, and as such is charged with collating information from our material subsidiaries and operations subdivisions that may amount to inside information. Each of our material subsidiaries and operating subdivisions has a disclosure officer appointed to it, who is responsible for identifying potential inside information and communicating such information to the central Disclosure Committee. The Disclosure Committee is responsible for, *inter alia*:

- the establishment, maintenance and updating of the reporting systems and procedures with the Company, its subsidiaries and their operational divisions;
- the formulation, introduction and updating as required of various guidelines and thresholds (including in relation to monetary value, operational impact and types of event) to aid each disclosure officer in identifying inside information that may arise;
- the implementation and production (in cooperation with its external advisors) of materials for the Company's employees, officers and third parties relating to compliance; and
- making final determinations about inside information and its disclosure.

The Disclosure Committee currently consists of six members. The following table sets out the name and position of each member of the Disclosure Committee:

<u>Name</u>	<u>Position</u>
Artem Eyramdzhants .....	First Vice-President, Chief Operating Officer, Chairman of the Disclosure Committee
Andrey Rodionov .....	Vice-President for Economy and Finances – Financial Director, Chief Operating Officer
Fedor Sapronov.....	Vice-President for Legal Issues
Viktor Szalkay .....	Manager for Liaising with Investors, Investor Relations Officer
Grigoriy Goncharsky .....	Counsel to the First Vice-President
Vladimir Lapenkov.....	Corporate Secretary, Secretary and Chief Disclosure Officer of the Disclosure Committee

The operations of the Disclosure Committee are governed by a detailed set of regulations.

## Remuneration of Members of the Board of Directors and the Management Board

The aggregate amount of remuneration we paid to the members of our Board of Directors for services in all capacities provided to us during the year ended December 31, 2010 was RUB 23.9 million in salary and other payments. The aggregate amount of

remuneration paid to the members of our Board of Directors decreased by RUB 0.1 million, or 0.85 %, from RUB 12.0 million for the six months ended June 30, 2010 to RUB 11.9 million for the six months ended June 30, 2011.

The aggregate amount of remuneration we paid to the members of our Management Board for services in all capacities provided to us during the year ended December 31, 2010 was RUB 68.2 million in salary and other payments. The aggregate amount of remuneration paid to the members of our Management Board decreased by RUB 5.1 million, or 16.2 %, from RUB 31.4 million for the six months ended June 30, 2010 to RUB 26.3 million for the six months ended June 30, 2011.

We have provided no loans, and granted no guarantees with respect to the obligations of the members of the Board of Directors and our senior managers in 2010 and the first half of 2011.

### **Employment Contracts**

All of the members of our Management Board are employed under employment contract, which are valid for the term of the Management Board. Members of our Management Board received remuneration for their services and also entitled to reimbursement of their expenses that were properly and reasonably incurred in the course of performance of their duties.

The employment contracts may be terminated at will by either party. The Board of Directors may terminate the employment of any member of the Management Board by its resolution at its own initiative or at the initiative of such member. The members of the Management Board are not entitled to any severance payments except for the payment of remuneration accrued to the date of termination of the appointment and compensation of any expenses properly incurred prior to that date.

### **Indemnity**

On November 25, 2010 we entered into an insurance agreement with Zurich Insurance Company Ltd. to indemnify our directors and other executive employees, as well as their spouses, for financial losses related to civil claims, including counter-claims, written compensation claims, official notifications on the commencement of criminal cases, arbitration proceedings and administrative proceedings, including proceedings initiated by any regulatory authority with respect to securities transactions. The indemnification does not cover any intentional dishonest and fraudulent acts or omissions committed by our directors and other executive employees.

### **Corporate Governance**

Our Ordinary Shares are listed on the “A - level 1” list of MICEX and on the “B” list of RTS. Prior to our listing on the “A – level 1” list of MICEX from September 1, 2011, our Ordinary Shares were listed on the “B” list from November 22, 2007 and on the “V” list from June 11, 2007. Prior to our listing on the “B” list of RTS from October 22, 2007, our Ordinary Shares were listed on the “V” list of RTS from April 26, 2007. As a result, we are required to comply with the corporate governance regime established for companies whose shares are listed on the “A – level 1” list of a Russian stock exchange, which is stricter than the corporate governance regime established for companies whose shares are listed on the “B” list of a Russian stock exchange. Such corporate governance standards include, among other things, the following:

- at least three independent directors (in accordance with the requirements for independence set out in Russian legislation) on our Board of Directors at all times;
- establishment of an audit committee of the Board of Directors composed exclusively of independent directors (or, if there is an insufficient number of independent directors, exclusively of independent directors and non-executive directors) and chaired by an independent director;
- establishment of a personnel and remuneration committee of the Board of Directors composed of independent directors only (or, if there are insufficient independent directors, independent directors and non-executive directors only);
- establishment of the Management Board;
- adoption of a regulation on insider trading;
- adoption of a regulation on information disclosure;



- establishment of internal control procedures; and
- introduction of provisions into our internal documents requiring members of the Board of Directors, the Management Board and any other executive body, including the management company (if any) and its officers, to disclose information concerning their ownership, sale and purchase of our securities.

The corporate governance standards established for companies whose shares are listed on the “B” list of a Russian stock exchange include, among other things, the following:

- at least one independent director (in accordance with the requirements of independence as set out by Russian legislation) on our Board of Directors at all times;
- establishment of the audit committee of the Board of Directors, which is headed by an independent director and includes only directors who do not serve as our executive bodies;
- the provision to the shareholders of a report from the audit committee summarizing any findings relating to audit of the financial statements by the annual General Shareholders’ Meeting;
- adoption of internal regulations on the use of insider information and on internal control over financial and business activities;
- a provision in our internal regulations requiring our President (chief executive officer) as well as the members of our Board of Directors and the Management Board to disclose information on their ownership, sale and purchase of our securities; and
- a provision in our charter that shareholders must be given at least 30 days’ notice of the annual General Shareholders’ Meeting.

To bring us into compliance, we have adopted a number of internal regulations governing the activities of our management bodies. As of the date of this Information Memorandum, according to our internal regulations, the chairman of our Board of Directors should not serve as the President (chief executive officer) and at least one member of the Board of Directors should be independent, meeting the following requirements:

- he/she should not be an officer or employee of the Company during the previous three years;
- he/she should not be an officer of another company if any officer of such company is a member of the Remuneration and Personnel Committee of the Board of Directors;
- he/she should not be a spouse, parent, child, brother or sister of any officer of the Company;
- he/she should not be an affiliate, as defined in Russian legislation, of the Company except for being a member of the Board of Directors;
- he/she should not be a party to any transactions with the Company entitling him/her to acquire a property with a value of 10% or more of his/her total annual income, excluding compensation for carrying out the functions associated with being a member of the Board of Directors; and
- he/she should not be a representative of the state.

In addition, the internal regulations provide for the creation of committees of the Board of Directors. The Board of Directors established the Remuneration and Personnel Committee and the Audit Committee, and formally delegated certain duties and responsibilities to such committees. From time to time, separate committees may be set up by the Board of Directors to consider specific issues when the need arises.

### **Continuing Obligations and Compliance**

We have previously failed to maintain a sufficient focus on ensuring our compliance with our continuing obligations as a company with a standard listing of GDRs on the LSE. In particular, we have been advised that we should ensure a greater focus on compliance with our obligations under DTR 2 with regard to announcements to the market of price sensitive information. See *“Risk Factors—Risks Relating to Our Business— We have weaknesses and deficiencies in our internal controls and we have in the past had a lack of focus on some of our continuing obligations as a London-listed company”*. We have taken this advice seriously and have undertaken a number of remedial steps and measures summarized below to help ensure that we are in compliance with our applicable obligations in the future.

In particular, as we are now more keenly aware of the historical weaknesses in our compliance systems regarding our obligations as an issuer of the GDRs on the LSE, we have taken specific remedial steps with the aim of:

- ensuring that we have ready access to seasoned and experienced external advisors on an ongoing basis;
- ensuring that our senior management is properly familiarised with our continuing obligations;
- putting in place procedures and structures that will help ensure that we have a clear and well defined system in order to address the identification and disclosure of inside information; and
- ensuring that third parties with whom we interact are subject to, and aware of, their confidentiality and notification obligations in respect of inside information about us, which they may be privy to.

### **Ethics Code**

In August 2011, our Board of Directors approved a code of ethics for the Group (the **“Ethics Code”**). The main purpose of the Ethics Code is to identify our corporate values, standards and rules of behavior for each employee and to promote understanding by the employees of their role in the achievement of our strategic goals. The ethics principles among other areas have been developed with respect to (i) relations with third parties, customers and state authorities, (ii) political activity and charity, and (iii) environmental safety and protection. We view the adoption of the Ethics Code as an important step in the continued improvement in the corporate governance of the Group.

### **Related Party Transactions Systems and Procedures**

Our Board of Directors has adopted a prescriptive set of rules and procedures to address the monitoring, disclosure and approval of various related party transactions. The relevant procedures focus on any transactions between the Company and any related party to the Company, as such term is used under IAS 24. The Vice-President for Legal Issues of the Company will be responsible for implementing such procedures, as well as:

- organizing and monitoring our compliance with the procedures;
- conducting an analysis of information disclosed by our key management and cooperating with the Financial Director/Chief Accountant in order to identify any potential related party transactions;
- reporting to the Chairman of the Management Board on:
  - our general compliance with the procedures;
  - any proposed transactions which fall within the related party transaction definition; and
  - any unclear or doubtful situations or situations in which a conflict has arisen in relation to implementation of the procedures.
- maintaining and promptly updating the Group’s list of related parties as applicable;
- monitoring publicly available information in order to help identify related parties;

exchanging information and regular interaction with the Financial Director in relation to the procedures.

## **Interests of Directors and Officers**

The members of the Board of Directors and the Management Board and certain direct or indirect beneficial owners of the Company have the following potential conflict of interest:

- Chairman of our Board of Directors (Mr. Vladislav Mamulkin) and one other member of our Board of Directors (Ms. Anna Kolonchina) are officers and directors of the Nafta Moskva Group or its affiliates. See “—*Board of Directors*” above. The Nafta Moskva Group is the beneficial owner of the Ordinary Shares of the Company. By virtue of these members of our Board of Directors holding positions within the Nafta Moskva Group or certain entities affiliated with the Nafta Moskva Group, a potential conflict of interest may arise between the duties of these Directors owed to the Company and their duties owed to such entities. For example, this may cause these members of our Board of Directors to pursue the interests of the Nafta Moskva Group or its affiliates and not our interests if a corporate opportunity suitable for both us and the Nafta Moskva Group presents itself.

None of our directors and executive officers has beneficial ownership interests in our Ordinary Shares and holds options with respect to our Ordinary Shares. See “*Principal Shareholders*.”

There are no family relationships between and among directors and senior management.

## **Litigation Statement about Directors and Officers**

At the date of this Information Memorandum, none of our Directors or executive officers:

- has had any convictions in relation to fraudulent offenses;
- has been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- has been officially indicted and/or sanctioned by any statutory or regulatory authorities (including designated professional bodies) or have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company,
- in each case within the five years preceding the date of this Information Memorandum.

## RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties since January 1, 2008 to the date of this Information Memorandum. For details of these transactions, please refer to Note 32 of the Audited Consolidated Financial Statements and Note 20 of our Unaudited Consolidated Financial Statements for the six months ended June 30, 2011.

	For the year ended December 31,			For the six months ended June 30,	
	2008 <i>(restated)*</i>	2009 <i>(restated)*</i>	2010	2010	2011
	mln RUB				
<b>Management remuneration</b>					
Salaries and bonuses .....	403	543	100	48	68
Contributions to State Pension Fund .....	8	7	1	1	3
<b>Total</b> .....	<b>411</b>	<b>550</b>	<b>101</b>	<b>4</b>	<b>71</b>
<b>Transactions with other related parties</b>					
<i>Sales to related parties:</i> .....					
Sales of apartments to executive directors .....	-	60	-	-	-
Sales of apartments to an insurance company controlled by the Founding Shareholders .....	-	116	-	-	-
Sales of assets to a related party controlled by the Founding Shareholders .....	-	660	-	-	-
Interest income accrued on a loan receivable from the party related to the Founding Shareholder .....	128	142	172	-	-
<b>Total</b> .....	<b>128</b>	<b>978</b>	<b>172</b>	<b>-</b>	<b>-</b>
<i>Purchases from related parties:</i>					
Purchase of mortgage loan portfolio from a bank controlled by the Founding Shareholders .....	2,376	-	-	-	-
Payments under property insurance contracts to an insurance company controlled by the Founding Shareholders.....	23	47	20	23	29
<b>Total</b> .....	<b>2,399</b>	<b>47</b>	<b>20</b>	<b>23</b>	<b>29</b>
<b>Related party balances</b>					
Loans receivable (15% <i>per annum</i> ) from executive director .....	15	15	-	-	-
Loans receivable from the party related to the Founding Shareholder .....	1,195	951	580	580	-
Loans issued to an equity accounted investee, net of impairment .....	342	488	-	-	-
Accounts receivable under sale of shares of a related party bank controlled by the Founding Shareholders .....	464	11	-	-	-
Cash and cash equivalents at related party bank controlled by the Founding Shareholders .....	2,149	1,369	-	-	-
Accounts receivable under co-investment agreements with a related party controlled by the Founding Shareholders.....	-	-	381	381	-
<b>Total</b> .....	<b>4,165</b>	<b>2,834</b>	<b>961</b>	<b>961</b>	<b>-</b>
Accounts payable under construction contract with an equity accounted investee .....	2,839	909	1,207	-	-
Loans payable and promissory notes due to companies related to Shareholders .....	503	40	323	323	323
Accounts payable under co-investment agreements with a related party controlled by the Founding Shareholders....	-	-	94	94	-
Advances received under sales of apartments: <i>Executive directors</i> .....	-	30	-	-	-
<i>Insurance company related to the Founding Shareholders</i> .....	-	67	-	-	-

<b>Total</b> .....	<b>3,342</b>	<b>1,046</b>	<b>1,624</b>	<b>417</b>	<b>323</b>
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\* For a description of the restatements, please see “*Selected Consolidated Financial Information and Other Operating Data — Restatements.*”

### **General matters**

Generally, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form. Russian law requires a company that enters into so-called “interested-party transaction” with the company’s officers, directors, major shareholders or other affiliated parties to obtain certain corporate approvals. See “*Description of Share Capital and Certain Requirements of Russian Legislation — Interested party transactions.*”

Mr. Pisarev and Mr. Zhukov, our Founding Shareholders who previously controlled us, also control or are affiliated with a number of companies. These companies are engaged in real estate development, including development of commercial properties and certain types of residential properties (such as cottages and other types of single-family homes), and non-ferrous mining operations. We have been a party to various agreements and other arrangements with certain related parties and interested parties, the most significant of which are described below. We have not engaged in any significant related party transactions since the acquisition of a significant interest in us by the Nafta Moskva Group and the resulting changes in the composition in our Board of Directors in June 2009.

### **Sale of shares in subsidiaries to related parties**

#### ***Sale of Lasteya Art***

In December 2009, we sold a 100% interest in Lasteya Art, which held rights to a land plot intended for the development of a high-end residential development located on Afanasevsky street in downtown Moscow, to Gallows Marketing Group Ltd., a company affiliated with Mr. Zhukov, one of our Founding Shareholders, for a total consideration of RUB 274 million in an arm’s-length transaction approved by our Board of Directors as an interested party transaction under Russian law. The total consideration exceeded the value assigned to the disposed asset in a periodic valuation report prepared by an independent appraiser. This transaction allowed us to reduce our working capital needs by assigning to Gallows Marketing Group Ltd. our contractual commitments to individuals who had already invested in construction. We also transferred to the purchaser rights to an apartment and parking spaces in the development that we acquired under the co-investment agreements. Gallows Marketing Group Ltd. satisfied its payment obligation for the shares of Lasteya Art and for the rights to the apartment and parking spaces by delivering to us promissory notes issued by our subsidiary PIK-Region in the amount of USD 22 million. We recognized a loss of RUB 130 million on this sale because the total consideration received was lower than the carrying value of the construction in progress, which reflects an adjustment for advances from individual investors in the aggregate amount of RUB 823 million (at the U.S. dollar and Euro exchange rates as of December 15, 2009) that had been received by us by the time of the sale.

#### ***Sale of Avtorita Holdings Ltd.***

In July 2009, we terminated trust deeds entered into with FMC Realtors Holding Inc. and IBG Development Group Inc. with regard to Avtorita Holdings Ltd., an entity operating corporate aircrafts used primarily for the maintenance of corporate image and representation purposes. At the time of the transaction, FMC Realtors Holding Inc. and IBG Development Group Inc. were entities effectively controlled by our Founding Shareholders, Mr. Zhukov and Mr. Pisarev. Immediately following the termination of those trust deeds, we disposed of our 100% interest in Avtorita Holdings Ltd. to FMC Realtors Holding Inc. and IBG Development Group Inc. for a nominal consideration resulting in a loss of RUB 216 million. The transaction was approved by our Board of Directors as an interested-party transaction. The sale was part of our cost saving strategy to eliminate future corporate aircraft maintenance costs. The aircraft purchased by Avtorita Holdings Ltd. leased to us. The sale of Avtorita Holdings Ltd. resulted in a loss of RUB 216 million, which was primarily a result of the disposal of a receivable due from a related party for the use of the aircraft, which would have been otherwise written off as uncollectible at the end of 2009.

#### ***Sale of Housing Finance Bank***

In April 2007, we sold, directly and through our subsidiaries, a 35.1% interest in Housing Finance Bank to a company controlled by our Founding Shareholders, for a total consideration of approximately RUB 538 million in line with our strategy

to divest our non-core assets and simplify our corporate structure prior to the initial public offering of our Ordinary Shares in 2007. The transaction was not formally approved by our Board of Directors as an interested-party transaction because at the time of the transaction we had no minority shareholders and were a private company. The purchaser of Housing Finance Bank made cash payments of RUB 453 million in 2009 and RUB 11 million in 2010 and cancelled indebtedness of the Group in the amount of RUB 74 million.

### ***Sale of PIK Nerud***

In August 2009, we sold our non-ferrous mining division through the sale of a 100% interest in our subsidiary PIK Nerud, which, in turn, held controlling interests in several other entities engaged in mining, processing and sales of raw materials, as a part of our plan to dispose of certain non-core assets to repay a portion of our indebtedness. We sold our non-ferrous mining division in a transaction approved by our Board of Directors (though not as an interested party transaction under Russian law) to one of our creditors, Lakebed Trading Limited, for a total consideration of USD 65 million (RUB 2,077 million). Lakebed Trading Limited paid USD 30 million in cash and delivered to us promissory notes issued by our subsidiary PIK-Region in the amount of USD 35 million. The total consideration exceeded the valuation of the disposed asset, which had been prepared by an internationally recognized firm performing independent appraisal services and on this basis the transaction was determined by the Company to be on an arm's-length basis. This transaction resulted in a gain of RUB 1,193 million.

At the time of the transactions and as at the date when the Audited Consolidated Financial Statements were issued, we were not able to identify the beneficial owners of Lakebed Trading Limited. Prior to closing of the PIK Nerud sale, we requested and received a confirmation from representatives of Lakebed Trading Limited that, to their knowledge, the sale of PIK Nerud would not constitute an interested party transaction under Russian law. Mr. Zhukov did not disclose to us that Lakebed Trading Limited was connected to him. The transaction was not disclosed as a related party transaction in our consolidated financial statements. Since we were unable to identify the beneficial owner of Lakebed Trading Limited while indications existed that the transactions in fact were related party transactions, our auditors expressed a qualified audit opinion on the Audited Consolidated Financial Statements. These indications were as follows: (i) the remaining promissory notes issued to Lakebed Trading Limited were later returned to us by Gallows Marketing Group Ltd. and Quinturin, entities known to be affiliated with Mr. Zhukov, one of our Founding Shareholders, in separate transactions (ii) the loan underlying the promissory notes was originally made by IBG Development Group, a company beneficially owned by Mr. Zhukov, and later assigned to Lakebed Trading Limited, (iii) the loan provided by IBG Development Group was not on market terms, (iv) after the sale of PIK Nerud, there were reports in the Russian press indicating that PIK Nerud is now owned by Mr. Zhukov. We now believe that these transactions were in fact related-party transactions with an affiliate of Mr. Zhukov, one of our Founding Shareholders.

### **Acquisitions of subsidiaries and other assets from related parties**

#### ***Acquisition of the pool mortgages***

In the first half of 2008, we acquired a pool of mortgage loans from Housing Finance Bank, a party controlled by one of our Founding Shareholders, for RUB 2,376 million to facilitate sales of our apartments by providing additional liquidity to Housing Finance Bank, which allowed the bank to originate additional mortgages. The transaction was not formally approved by our Board of Directors as an interested-party transaction as required by the Russian law. The acquired mortgage loans had been provided to our customers who purchased pre-sold apartments in our developments. Terms of these mortgages were more beneficial to us than standard market terms. There were a high volume of prepayments in 2009. As of June 30, 2011, no such loans were outstanding.

### **Loans and other payables to related parties**

#### ***Loans from companies affiliated with our shareholders***

We received loans in the past from companies affiliated with our Founding Shareholders, including Housing Finance Bank. Typically, these loans were short term loans with maturities of up to one year and with interest rates of between 14% and 15%. As of June 30, 2011, no such loans were outstanding.

#### ***Loan from Lakebed Trading Limited***

In October 2008, our subsidiary PIK-Region entered into a short-term bridge financing facility with IBG Development Group Company, a company beneficially owned by Mr. Zhukov, one of our Founding Shareholders, to pay the application fee for

participation in a tender organized by the Moscow Government. We made a drawdown in the amount of RUB 1,146 million under the facility. The principal amount was due and payable in the end of October 2008, but we failed to make a timely payment. In December 2008, our overdue debt was assigned to Lakebed Trading Limited. Indications existed that Lakebed Trading Limited might be related to the Group. We have not been able to identify and disclose to our auditors the beneficial owners of Lakebed Trading Limited. The auditor's report on the Audited Consolidated Financial Statements as at and for the years ended December 31, 2009 and 2010 has been qualified accordingly.

PIK-Region and Lakebed Trading Limited entered into several agreements on novation of our obligations, which extended the maturity of this debt. In exchange for the extension, we agreed to capitalize accrued interest and penalties. In August 2009, we converted a portion of this debt into promissory notes issued by PIK-Region to Lakebed Trading Limited in the principal amount of USD 35 million. In December 2009, we converted the remaining portion of the debt into promissory notes issued by PIK-Region to Lakebed Trading Limited in the principal amount of USD 28 million.

The promissory notes in the amount of USD 35 million issued to Lakebed Trading Limited in August 2009 were delivered to us as a part of consideration for the sale of interest in PIK Nerud in August 2009. See "*— Sale of shares in subsidiaries to related parties — Sale of PIK Nerud*". The promissory notes issued to Lakebed Trading Limited in December 2009 in the amount of USD 22 million were assigned to Gallows Marketing Group Limited, an entity affiliated with Mr. Zhukov, and were delivered to us as a consideration for the sale of a number of apartments and our rights to a land plot intended for the development of a high-end residential living complex located in downtown Moscow. See "*— Sale of shares in subsidiaries to related parties — Sale of Lasteya Art*".

As of June 30, 2011, no amounts payable under the promissory notes issued to Lakebed Trading Limited were outstanding.

#### ***Loan from Lacero Trading Ltd.***

In July 2010, our subsidiary Stroybusinesscenter entered into a loan agreement with Lacero Trading Ltd., one of our shareholders affiliated with the Nafta Moskva Group. Pursuant to the loan agreement, we received a loan from Lacero Trading Ltd. in the principal amount of RUB 323 million. The loan has an interest rate of 12% *per annum* payable simultaneously with the repayment of the principal amount of the loan. The maturity date of this loan is September 30, 2011. We are currently in the process of amending the loan agreement to extend the maturity date of this loan. As of June 30, 2011, the outstanding amount under this loan agreement was RUB 323 million.

#### **Loans and other receivables from related parties**

##### ***Loans to our officers and companies affiliated with our shareholders***

In 2006, we made an interest-bearing loan to Mr. Pisarev, one of our Founding Shareholders, who, at that time, was our executive director in the amount of RUB 15 million. As of June 30, 2011, no such loan was outstanding.

We have given loans in the past to companies affiliated with our Founding Shareholders. Typically, these loans have been short term loans with maturities of up to one year and with interest rates of between 3% and 10%. As of June 30, 2011, no such loans were outstanding.

We have maintained accounts in Housing Finance Bank, controlled by our Founding Shareholders. As of June 30, 2011, our cash deposits with Housing Finance Bank amounted to zero.

##### ***Loan to Quinturin***

In April 2006, we entered into an agreement with Quinturin, a company affiliated with Mr. Zhukov, one of our Founding Shareholders, without a formal approval of such agreement as an interested party transaction, pursuant to which we made a loan to Quinturin in the principal amount of RUB 150 million maturing in 11 months and with an interest rate of 10% per annum. By several amendments to the loan agreement executed in 2006, 2007 and 2008, all of which were not formally approved as interested party transactions, we agreed to increase the principal amount of the loan up to RUB 1,200 million and extend the maturity term to December 31, 2009. By an amendment executed in April 2009, we extended the maturity of the loan agreement to April 1, 2012 and increased the interest rate payable by Quinturin to 15% per annum. In December 2009, we entered into an amendment to the loan agreement with Quinturin, pursuant to which Quinturin delivered to us two promissory

notes issued by PIK-Region in the total amount of approximately RUB176 million as partial repayment of the outstanding amount under the loan agreement.

The loan agreement and all the amendments thereto (except for the amendment of December 2009) were challenged by Lacero Trading Ltd., one of our shareholders affiliated with the Nafta Moskva Group because they were not duly approved as interested-party transactions. In July 2010, the Moscow Arbitrazh Court declared that the amendment to the loan agreement executed in April 2009 was invalid, thereby invalidating the extension of the final maturity date from 2009 to 2012. In October 2010, the Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court. In December 2010, we filed a claim against Quinturin with the Moscow Arbitrazh Court demanding the repayment of the principal amount of the loan due to us, together with the accrued interest and penalties. In January 2011, the court granted our claim and ordered Quinturin to pay us the principal amount of RUB 1,029 million, accrued interest in the amount of RUB 205 million and penalties in total amount of RUB 461 million. In February 2011, Quinturin filed an appeal with the Ninth Arbitrazh Court seeking to reverse the judgment of the Moscow Arbitrazh Court. In March 2011, we assigned our claims against Quinturin to Aniria Consulting Limited, a company not affiliated with us, for a total consideration of RUB 580 million. In May 2011, the Court terminated proceedings in this case because Aniria Consulting Limited abandoned its claim.

### **Other transactions with related parties**

#### *Sales of real estate units to our officers*

We have sold (or pre-sold) in the past and may continue to sell (or pre-sell) in the future real estate units in our residential developments to our executive officers. In particular, in 2009 we pre-sold an apartment and a parking lot in a building that is not yet completed. These properties were pre-sold at prices offered to our unrelated customers.

#### *Transactions with the Industrial Insurance Group OSNOVA*

Our companies acting as contractors or general contractors are insured against civil liability in connection with the construction and assembly of buildings by the Industrial Insurance Group OSNOVA, a company controlled by our Founding Shareholders. The Industrial Insurance Group OSNOVA has been selected to act as an insurer in a competitive tender process. We believe that insurance premiums and the terms of insurance offered by the Industrial Insurance Group OSNOVA are based on the standard market terms. Transactions with Industrial Insurance Group OSNOVA are approved by our Board of Directors as interested-party transactions.

In March 2009, we entered into several real property sale contracts with Industrial Insurance Group OSNOVA. Pursuant to the contracts, we sold certain residential and non-residential properties for the total consideration of RUB 191 million payable in cash in an arm's length transaction approved by our Board of Directors, as a part of our plan to dispose of certain non-core assets to repay a portion of our debt. These transactions resulted in a net loss of RUB 84 million because the carrying value of the properties sold was higher than the consideration received in these transactions.

#### *Transactions in connection with the Park-City development project*

Between 2005 and the first half of 2011, we made loans to Park-City Investments, our equity accounted investee, to finance the development of the Park City development project, which were accounted for as related party transactions. The amount of loans given to Park-City Investments equaled RUB 1,170 million (including interest payable) as of December 31, 2010. During the six months ended June 30, 2011, these loans were repaid.

PIK-Invest acted as a technical customer with respect to the Park-City project, a high-end residential and commercial development in Moscow. It received advances from Trehgorie, an entity in which the Company has an indirect minority interest, that were used to pay for the services of the general contractor and other entities that carried out design and construction works on the development site. The amount of advances received from Trehgorie, which equaled RUB 949 million as of June 30, 2011, was included into our accounts payable.

In May 2009, we provided a guarantee to a bank in relation to the credit facility in the amount of USD 75 million received by a related party participating as an investor in the Park-City development project. The guarantee was granted for no consideration. The purpose of the loan was to finance preliminary design and other works on the development site.



## PRINCIPAL SHAREHOLDERS

As of the date of this Information Memorandum, our share capital was RUB 30,828,774,000 divided into 493,260,384 issued registered Ordinary Shares with a nominal value of RUB 62.5 each, all of which have been issued on a fully paid-up basis.

The following table sets forth information, known to the Company, regarding our directors and officers who own at least 1% of the Ordinary Shares (including Ordinary Shares held in the form of GDRs) and other shareholders who have a significant stake in the Company as of the date of this Information Memorandum or are affiliated with the Nafta Moskva Group:

<u>Name of the Registered Owner</u>	<u>Number of Ordinary Shares or GDRs</u>	<u>Total %</u>
Holborner Services Ltd. <sup>(1)</sup> .....	98,652,076	20.0%
Brigantia Ltd. <sup>(2)</sup> .....	83,067,602	16.8%
Artertesia Consulting Ltd. <sup>(3)</sup> .....	32,989,765	6.7%
VTB Bank <sup>(4)</sup> .....	26,438,757	5.4%
Alfa Capital Holdings (Cyprus) Ltd. <sup>(5)</sup> .....	15,000,000	3.0%
Renaissance Securities (Cyprus) Ltd. <sup>(6)</sup> .....	14,353,877	2.9%
Lacero Trading Ltd. <sup>(7)</sup> .....	7,257,729	1.5%
<b>Total</b> .....	<b>493,260,384</b>	<b>100%</b>

- (1) Holborner Services Ltd. is a company incorporated in the Republic of Cyprus with the registered office at 101 Akropoles, 3rd floor, Strovolos, P.C. 2012, Nicosia, the Republic of Cyprus. Ordinary Shares and GDRs held by Holborner Services Ltd. are beneficially owned by the Nafta Moskva Group. The ultimate beneficial owner of the Nafta Moskva Group is Mr. Suleyman Kerimov. The Ordinary Shares held by Holborner Services Ltd. have been pledged to lenders of the Group. See “*Material Contracts – Major Credit Agreements.*” The Ordinary Shares and GDRs held by Holborner Services Ltd. are subject to a call option in favor of Maritrade Investments Ltd. and Forienst Investments Ltd., entities controlled by our Founding Shareholders. See “*General Information.*”
- (2) Brigantia Ltd. is a company incorporated in the Republic of Cyprus with the registered office at 61-63-Lordou Vyronos, Office 601 P.C. 6023, Larnaca, the Republic of Cyprus. Ordinary Shares held by Brigantia Ltd. are beneficially owned by the Nafta Moskva Group. The ultimate beneficial owner of the Nafta Moskva Group is Mr. Suleyman Kerimov. See “*Material Contracts – Major Credit Agreements.*”
- (3) Artertesia Consulting Ltd. is a company incorporated in the Republic of Cyprus with the registered office at Karaiskaki, 38 Kanika Alexander Block 01, 1<sup>st</sup> floor, Flat/Office 113GD P.C.3032, Limassol, the Republic of Cyprus.
- (4) VTB Bank is an open joint stock company incorporated in the Russian Federation with the registered office at 29 Bolshaya Morskaya Street, St. Petersburg, 190000, the Russian Federation.
- (5) Alfa Capital Holdings (Cyprus) Ltd. is a company incorporated in the Republic of Cyprus with the registered office at Elenion Building, 2nd Floor, 5 Themistocles Dervis Street, CY-1066 Nicosia, PO Box 25549, CY-1013 Nicosia, the Republic of Cyprus.
- (6) Renaissance Securities (Cyprus) Ltd. is a company incorporated in the Republic of Cyprus with the registered office at Alpha Business Centre, 8th Floor, 27 Pindarou Street, CY-1060 Nicosia, the Republic of Cyprus.
- (7) Lacero Trading Ltd. is a company incorporated in the Republic of Cyprus with the registered office at Karaiskaki, 38 Kanika Alexander Block 01, 1st Floor, Flat/Office 113GD P.C.3032, Limassol, the Republic of Cyprus. Ordinary Shares held by Lacero Trading Ltd. are beneficially owned by the Nafta Moskva Group. The ultimate beneficial owner of the Nafta Moskva Group is Mr. Suleyman Kerimov.

As of June 30, 2010, our Founding Shareholders beneficially owned 23% of our Ordinary Shares. Maritrade Investments Ltd., a company controlled by Mr. Zhukov, was the owner of 12.5% of our Ordinary Shares and Forienst Investments Ltd., an entity affiliated with Mr. Pisarev, held approximately 10.5% of our Ordinary Shares. Since that time, Maritrade Investments Ltd. disposed of all of the Ordinary Shares it owned and Forienst Investments Ltd. reduced its holdings to a nominal amount. However, there are indications that our Founding Shareholders may continue to beneficially own our Ordinary Shares as Mr. Gubarev, known to be affiliated with Mr. Pisarev, was nominated and elected to the Board of Directors in September 2011.

We are not aware of any person or entity, other than the Nafta Moskva Group and its ultimate beneficial owner, Mr. Suleiman Kerimov, who directly or indirectly exercises significant influence over us. We are not aware of any arrangements that may result in a change of control. None of our principal shareholders has voting rights different from any other holder of our Ordinary Shares. See also “*Risk Factors — Risks Relating to Our Business — We expect to remain under the control of the Nafta Moskva Group.*”

Russian laws such as the Joint Stock Companies Law and corporate governance requirements applicable to companies listed on Russian stock exchanges provide certain protections to minority shareholders. For instance, there are supermajority shareholder

approval requirements for certain corporate actions, appraisal rights, entitling a shareholder to demand that the company purchases the shares held by such shareholder if the shareholder voted against or did not participate in voting on certain types of actions, disinterested shareholder approval requirements of certain transactions with interested parties and derivative law suits provisions permitting shareholders owning not less than 1% of the company's stock to bring an action for damages caused to the company by the company's managers or directors. In addition, as our Ordinary Shares are listed on RTS and MICEX, we currently comply with a number of corporate governance standards, which provide additional protection to our shareholders, including minority shareholders. See "*Directors, Management and Corporate Governance — Corporate Governance.*"

## DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered Ordinary Shares, the material provisions of our charter in effect on the date of this Information Memorandum and applicable Russian legislation. This description of the applicable Russian legislation, however, does not purport to be a complete description of all applicable laws and should not be read as such. Prospective investors may obtain a copy of our charter upon request.

### **Our Purpose**

Under Article 2 of our charter, we may conduct investment activities (including investments in development projects), operations on acquisition and disposal of rights over investments and results of such projects, activities on the lease of real property, to act as a general constructor under the construction agreements and to carry out other activities that are not prohibited by Russian legislation.

### **Description of Share Capital**

#### *General*

We were founded as an open joint stock company “First Mortgage Company (PIK)” in 1994. In 2005, we were renamed into “PIK Group.” Our share capital is divided into Ordinary Shares each with an equal nominal value and the amount of the aggregate nominal value of all such Ordinary Shares constitutes our share capital. Absent specific contractual undertakings of shareholders, our Ordinary Shares may be sold by their holders to any third parties without triggering any pre-emptive rights or requiring any approvals on the part of other shareholders or the Company itself.

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. In 1998, 80,000 ordinary shares, each with a nominal value of RUB 25, comprising our share capital were converted into 80,000 ordinary shares, each with a nominal value of RUB 62.5. Our share capital currently consists of 493,260,384 Ordinary Shares, each with a nominal value of RUB 62.5, all of which are fully paid, issued and outstanding. All Ordinary Shares of our share capital are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 363,000,000 Ordinary Shares, each with a nominal value of RUB 62.5.

The Joint Stock Companies Law requires us to dispose of any of our Ordinary Shares that we acquire within one year of their acquisition or, failing that, reduce our share capital. Such Ordinary Shares are referred to as treasury shares for purposes hereof. Russian legislation does not allow for the voting of or payment of dividends in respect of such treasury shares. Currently, we do not have any treasury shares.

No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments are made to our charter pursuant to a resolution of the general shareholders’ meeting. The Joint Stock Companies Law provides for a right to issue preferred shares subject to the nominal value of all outstanding preferred shares not exceeding 25% of the share capital.

Our existing Ordinary Shares are listed on MICEX and RTS, in each case under the symbol “PIKK”.

#### *History of Share Issuances*

Since our incorporation, we completed one conversion and five issuances of our shares. In July 2007, the Company carried out the latest of four additional issuances of our shares, in which the share capital of the Company was increased from RUB 28,516,274,000 to RUB 30,828,774,000 through the issuance of 37,000,000 shares. All shares of the last issue were placed to investors under open subscription and were paid for in cash.

The following table sets out the changes in the Company's share capital that have occurred from the date of the Company's incorporation up to the date of this Information Memorandum.

<b>Year of issue or repurchase and cancellation</b>	<b>Type of shares</b>	<b>Number of shares issued/(repurchased and cancelled)</b>	<b>Nominal value of each share issued</b>	<b>Total number of ordinary shares after the issue</b>	<b>Total number of preferred shares after the issue or repurchase and cancellation</b>	<b>Total share capital after the issue or repurchase and cancellation</b>
			<i>(RUB)</i>			<i>(RUB)</i>
1994.....	Ordinary Shares	10,000	25.0	10,000	—	250,000
1996.....	Ordinary Shares	70,000	25.0	80,000	—	2,000,000
1998.....	Ordinary Shares	80,000	62.5	80,000	—	5,000,000
1999.....	Ordinary Shares	80,000	62.5	160,000	—	10,000,000
2006.....	Ordinary Shares	456,100,384	62.5	456,260,384	—	28,516,274,00
2007.....	Ordinary Shares	37,000,000	62.5	493,260,384	—	30,828,774,000

### **Rights of Shareholders**

Holders of our Ordinary Shares have the right to vote at all general shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all our Ordinary Shares have the same nominal value and grant identical rights to their holders. Absent specific contractual undertakings by shareholders, each fully paid Ordinary Share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends in accordance with the Joint Stock Companies Law and our charter if the general shareholders' meeting approves payment of such dividends (always subject to the Board of Directors' recommendation);
- acquire additionally issued shares by exercising pre-emptive rights on a pro rata basis in relation to their existing holdings of our shares as provided for by the Joint Stock Companies Law and our charter;
- participate in general shareholders' meetings and vote on all matters within the shareholders' competence;
- participate in the election and dismissal of members of the Board of Directors and the Review Commission;
- transfer voting rights to a representative on the basis of a power of attorney;
- if holding, alone or with other shareholders, 2% or more of the voting shares, within 30 days of the end of our fiscal year, make proposals for inclusion of the items to the agenda of an annual general shareholders' meeting and nominate the President (chief executive officer) and candidates to the Board of Directors and the Review Commission;
- if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the Board of Directors convene an extraordinary general shareholders' meeting or an unscheduled audit by the Review Commission;
- subject to certain limitations described below, demand repurchase by us of all or some of the shares owned by it, as long as such shareholder voted against or did not participate in the voting on the decision approving certain corporate events as described in "Share Buy-Back" below;
- upon our liquidation, receive a proportionate amount of our property after our obligations are paid off;
- have access to certain of our documents, receive copies for a reasonable fee and, if holding, alone or with other shareholders, 25% or more of the voting shares, have free access to accounting documents;

- if holding, alone or with other shareholders, 1% or more of the Ordinary Shares;
- access the list of persons entitled to participate in the general shareholders' meeting;
- sue, on our behalf, in court members of the Board of Directors or the President (chief executive officer) for damages incurred by us as a result of their faulty actions or omissions to act;
- obtain information on our shareholders' register as provided by Russian legislation; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of general shareholders' meetings approved in accordance with its competence.

Holders of our Ordinary Shares must also fulfill certain obligations such as compliance with our charter, decisions made by the general shareholders' meeting, and certain other requirements in accordance with Russian legislation.

### **Pre-emptive Rights**

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares issued through an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares issued through a closed subscription in an amount proportionate to their existing shareholdings if the shareholders voted against or did not participate in the voting on the decision approving such issue of the shares through the closed subscription. This pre-emptive right does not apply to the closed subscription for shares by the existing shareholders, provided that in the course of such closed subscription each such shareholder may acquire a whole number of shares or securities convertible into shares being placed, in proportion to its existing shareholding. We must provide shareholders with written notice at least 45 days prior to the commencement of the offering (by way of closed or open subscription), during which time shareholders may exercise their pre-emptive rights. If the price of the offered shares or securities convertible into shares is determined after expiration of the pre-emptive right exercise period, we must provide shareholders with written notice at least 20 days prior to the commencement of such offering, during which time shareholders may exercise their pre-emptive rights.

### **Dividends**

The Joint Stock Companies Law and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our three-month, six-month, nine-month and/or annual results. Dividends shall be recommended to the general shareholders' meeting by a majority vote of the Board of Directors and shall be approved by the majority vote of the general shareholders' meeting. A decision on three-month, six-month and nine-month dividends must be made at the general shareholders' meeting within three months of the end of the respective quarter, and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividends approved at the general shareholders' meeting may not be more than the amount recommended by the Board of Directors. Dividend payable on shares is distributed to our shareholders as of the record date for the general shareholders' meeting approving the dividends. According to our charter, the dividend should be paid in cash, unless the general shareholders' meeting takes a decision to pay dividends in kind, which is determined by the general shareholders' meeting on the basis of the Board of Directors' recommendation. No dividend is paid on treasury shares.

The paid dividends are subject to tax.

The Joint Stock Companies Law allows dividends to be declared as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the value of the company's net assets on the date of adoption of decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company (if any);
- the company has repurchased all shares from shareholders having the right to demand repurchase;

- the company is not, and would not become, insolvent as a result of the proposed dividend payment; and
- certain other requirements of Russian legislation.

According to our charter, dividends on Ordinary Shares may be paid out of our net profits calculated under RAS. In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by the Russian legislation.

We are required to pay dividends within the time period, which is indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution.

### **Distributions to Shareholders on Liquidation**

Under Russian legislation, liquidation of a company results in its ceasing to exist without rights and obligations being transferred to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- voluntary, by a three-quarters majority vote at a general shareholders' meeting (subject to the Board of Directors' recommendation); or
- involuntary, by a court order.

Following a decision on our liquidation, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the general shareholders' meeting and, in an involuntary liquidation, is appointed by the court that may vest the duty to liquidate us in our shareholders. Our creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation of a company:

- first priority — individuals owed compensation for personal injury or death or compensation for moral harm (emotional distress);
- second priority — employees' claims and copyright claims;
- third priority — federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- fourth priority — other creditors in accordance with Russian legislation.

Subject to certain limitations, claims of creditors with respect to obligations secured by a pledge over a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors of the first and second orders of priority arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;

- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares of all types.

### **Liability of Shareholders**

The Civil Code and the Joint Stock Companies Law generally provide that shareholders of a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is called an “effective parent.” The entity whose decisions are capable of being so determined is called an “effective subsidiary.” The effective parent bears joint and several liability for transactions entered into by the effective subsidiary in carrying out these decisions if:

- the effective parent gives binding instructions to the effective subsidiary; and
- the right of the effective parent to shape decisions is provided for in the charter of the effective subsidiary, in a contract between such entities and in another way.

Thus, a shareholder of an effective parent is not liable itself for the debts of the effective parent’s effective subsidiary unless that shareholder is itself an effective parent of the effective parent.

Therefore, shareholders will not be personally liable for our debts or those of our effective subsidiaries unless the shareholders control our business.

In addition, the effective parent is secondarily liable for the effective subsidiary’s debts if the effective subsidiary becomes insolvent or bankrupt resulting from the fault of the effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, the effective parent has secondary liability only if the effective parent has caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent may be held secondarily liable if the effective subsidiary’s insolvency is caused by the willful misconduct or negligence of such effective parent and if the effective subsidiary’s assets are insufficient to cover its obligations.

Shareholders of an effective subsidiary that is a joint stock company may also claim compensation for the effective subsidiary’s losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary’s loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary’s losses from the effective parent if the effective parent through its willful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

### **Alteration of Share Capital**

#### ***Share Capital Increase***

We may increase our share capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision to increase the share capital by increasing the nominal value of previously issued shares requires a majority vote of a general shareholders’ meeting. A decision on issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of shares or securities convertible into shares constituting more than 25% of the number of previously issued shares, requires a three-quarters majority vote of a general shareholders’ meeting. A decision on the issuance

of shares by way of distribution between all shareholders or an issuance by open subscription of shares or securities convertible into shares constituting 25% or less of the number of previously issued shares, requires a unanimous vote by the Board of Directors. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter requires a charter amendment, approved by a three-quarters majority vote of a general shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at the price determined by the Board of Directors based on their market value. The Board of Directors may provide for a discount for existing shareholders exercising their preemptive right to purchase shares for a price that shall not be less than 90% of the price set for third parties. In any event the price may not be set at less than the nominal value of the shares. The Board of Directors shall value any in-kind contributions for new shares based on the appraisal report of an independent appraiser.

Federal Law No. 39-FZ "On the Securities Market" dated April 22, 1996, as amended (the "**Law on the Securities Market**"), and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a Russian joint stock company.

### ***Share Capital Decrease***

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB100,000 for a Russian open joint stock company. While a decision to reduce our share capital through the repurchase and cancellation of shares should be made by a majority vote of the general shareholders' meeting, a decision to reduce share capital through a reduction in the nominal value of the shares should be made by a 75% majority of votes at the general shareholder's meeting and only upon recommendation of the Board of Directors. A decision to reduce our share capital through the reduction of the nominal value of the shares may provide for payments to all the shareholders and/or transfer of securities of other companies owned by us.

The Joint Stock Companies Law allows us to reduce our share capital only if at the time of such reduction:

- our share capital is paid up in full;
- we are not and would not become, as a result of the payment and/or the transfer of securities to the shareholders as described above, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the payment and/or the transfer of securities to the shareholders) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares;
- we have fully paid all declared dividends; and
- we comply with other requirements of Russian legislation.

Additionally, within 3 business days of a decision to reduce our share capital, we must inform on this decision an authority for registration of legal entities and publish a notice on this during each of the following two months. Our creditors would have the right to demand, within 30 days of the last publication of the notice, early termination or discharge of relevant obligations by us, as well as compensation for damages.

The shares repurchased pursuant to a decision of a company's general shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

### ***Share Buy-Back***

The Joint Stock Companies Law and our charter allow the general shareholders' meeting to authorize the repurchase of up to 10% of our shares in exchange for cash. The shares repurchased pursuant to a decision of the general shareholders' meeting must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.



The Joint Stock Companies Law allows us to repurchase our shares only if at the time of repurchase:

- our share capital is paid up in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganization;
- entering into a major transaction with a value in excess of 50% of the balance sheet value of our assets, as determined under RAS as of the most recent reporting date; or
- amendment of our charter or approval of a restated version of our charter in a manner, which restricts rights of shareholders of the same class.

We will repurchase the shares at the price stated by the Board of Directors, which shall not be less than the market value determined by an independent appraiser. Any such repurchase shall be limited up to 10% of our net assets calculated under RAS. If the value of shares with respect to which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro rata basis.

### **Registration, Transfer and Pledge of Shares**

All our shares are ordinary shares in registered form. Russian legislation does not require a specialized registrar to maintain a register of shareholders for joint stock companies, which have 50 or less shareholders. Since 2007, OJSC Registrar "R.O.S.T." located at 18 Stromynka Street, building 13, Moscow, Russia, has maintained our shareholder register. Ownership of our registered Ordinary Shares is evidenced solely by entries made in such register or in a depo account of a licensed Russian depository (custodian). Any of our shareholders may obtain an extract from such register certifying the number of Ordinary Shares that such shareholder holds. Any purchase, sale or other transfer or pledge of Ordinary Shares is accomplished through registration of the transfer or pledge in the register of shareholders, or in a depo account maintained by a depository if shares are held through a depository. In the latter case, the depository must appear as a nominal holder of Ordinary Shares in our register of shareholders or in the depo account of another depository. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to register the transfer or pledge of shares in the register or depo accounts as applicable. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, is not allowed, provided that the transfer or pledge documents comply with Russian law requirements, and such refusals may be challenged in court.

### **Reserve Fund**

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The reserve fund must be utilized only for the abovementioned purposes. Our charter provides for the reserve fund of 5% of our share capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% of our share capital.

### **Disclosure of Information**

According to Russian securities regulations, we shall make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of the Board of Directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity and disclosing the same information on our website on the same basis as required by applicable securities regulations;
- publishing in a newswire and on our website, as well as, in certain cases, publishing in a periodical publication, any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on, and other stages of, share issuances, certain changes in ownership and shareholding as well as resolutions of the general shareholders' meeting and certain resolutions of the Board of Directors and other information which may substantially affect the value of our shares;
- disclosing our charter and internal regulations;
- disclosing information on any of the following documents we have received:
  - (i) a voluntary offer (including any competing offer);
  - (ii) a mandatory offer (including any competing offer);
  - (iii) a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of our shares;
  - (iv) a request that minority shareholders sell their shares to the person that has acquired more than 95% of our shares;
- publishing our annual report and annual financial statements prepared in accordance with RAS and IFRS financial statements (if any);
- disclosing list of our affiliates on our website on a quarterly basis; and
- disclosing other information as required by applicable securities legislation.

### **General Shareholders' Meeting**

#### ***Procedure***

The powers of the general shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. The scope of authority of the general shareholders' meeting is limited to the powers contemplated by the Joint Stock Companies Law. Among issues that the shareholders have the power to decide are:

- amendments and additions to our charter;
- our reorganization;
- our liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- election and removal of members of the Board of Directors;
- determination of the number, nominal value and class/type of authorized shares and the rights granted by such shares;
- increase of our share capital by means of:
  - (i) increasing of the nominal value of the shares;
  - (ii) issuing shares via closed subscription;

(iii) issuing shares constituting more than 25% of the number of issued and outstanding shares via open subscription; and

(iv) issuing shares constituting 25% or less of the number of issued and outstanding shares via open subscription, if the Board of Directors fails to approve such decision unanimously;

- reduction of our share capital either by reduction of the nominal value of the shares or by buy-back of our outstanding shares for the purposes of such reduction or by cancellation of our treasury shares;
- splitting and consolidating our shares;
- issuance of bonds or other securities convertible into our shares when placed by either closed subscription or open subscription if the amount of shares into which such securities may be converted exceeds 25% of the number of issued and outstanding shares;
- appointment and removal of the members of our Review Commission;
- approval of our external auditor;
- approval of our annual reports and financial statements;
- approval of certain interested party transactions and major transactions;
- distribution of profits, including payment of dividends;
- setting out a procedure for holding a general shareholders' meeting;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organizations;
- approval of certain internal regulations;
- payment of remuneration to the members of the Board of Directors;
- payment of remuneration to the members of our Review Commission; and
- other issues, as provided for by the Joint Stock Companies Law.

Voting at a general shareholders' meeting is generally based on the principle of one vote per Ordinary Share, with the exception of the election of the Board of Directors, which is done through cumulative voting.

Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve the following:

- amendments and additions to our charter;
- our reorganization, liquidation, appointment of the liquidation commission or approval of preliminary and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of our assets;
- determination of the number, nominal value and type of authorized shares and the rights granted to holders of such shares;
- reduction of our share capital through a reduction of the nominal value of the shares;

- increase of our share capital through the issuance of ordinary shares when such shares are either placed by closed subscription or placed by open subscription if the amount of such shares exceeds 25% of issued and outstanding ordinary shares; and
- issuance of bonds or other securities convertible into ordinary shares when such bonds or other securities are either placed by closed subscription or placed by open subscription if the amount of ordinary shares in which such securities may be converted exceeds 25% of issued and outstanding ordinary shares.

The quorum requirement for a general shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in case of an annual general shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time, such as with respect to our reorganization or spin-off, an increase or decrease in share capital or a subdivision or consolidation of shares (the "**Validity Period**"). In the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become void and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

An annual general shareholders' meeting must be convened by the Board of Directors between March 1 and June 30 of each year, and the agenda must include among other issues the following:

- election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and the income statement;
- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor;
- appointment of the members of the Review Commission; and
- other issues according to the Joint Stock Companies Law.

A shareholder or shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of an annual general shareholders' meeting and may nominate candidates for the Board of Directors, the audit commission and the President (chief executive officer). Any agenda proposals or nominations must be provided to us no later than 30 calendar days after the end of the preceding financial year.

Extraordinary general shareholders' meetings may be convened by the Board of Directors on its own initiative, or at the request of the Review Commission, the external auditor or a shareholder owning, individually or collectively with other shareholders, at least 10% of the issued voting shares as of the date of the request.

If election of the members of the Board of Directors is on the agenda of an extraordinary general shareholders' meeting, a shareholder or a group of shareholders owning in the aggregate at least 2% of our voting shares may introduce proposals for nomination of candidates to the Board of Directors. The number of such candidates may not exceed the number set forth in the charter.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a general shareholders' meeting through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to us without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders' meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the Review Commission;
- approval of the external auditor;
- approval of our annual report, the annual financial statements, including the balance sheet, the income statement; and
- any distribution of profits, including approval of annual dividends.

### ***Notice and Participation***

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of joint attendance (meeting) or by absentee ballot, by no less than 30 days' notice. However, if it is an extraordinary general shareholders' meeting to elect the Board of Directors or to elect the board of directors of a newly established company in connection with the Company's reorganization through a merger, spin off or split, shareholders must be notified at least 70 days prior to the date of the meeting. If a general shareholders' meeting is to decide on a reorganization of the Company the shareholders must be notified of the meeting by no less than 30 days' notice. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our register of shareholders on the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the resolution of the Board of Directors to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, not more than 85 days before the date of such general shareholders' meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorized representative (by power of attorney);
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to a duly authorized representative.

### **Board of Directors**

Pursuant to the Joint Stock Companies Law and our charter, the Board of Directors performs general management of the Company's affairs, except for the adoption of decisions that fall within the exclusive competence of the general shareholders' meeting.

The Joint Stock Companies Law requires at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be our shareholders. Our charter provides that the Board of Directors must consist of no less than five members. As of the date of the Information Memorandum, the Board of Directors consists of nine directors.

Our charter provides for the election of the entire Board of Directors at each annual general shareholders' meeting. The Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates.

Prior to expiration of their term, the entire Board of Directors may be dismissed at any time without cause by a majority vote of shareholders participating in the general shareholders' meeting. Members of the Board of Directors may be re-elected an unlimited number of times.

The Joint Stock Companies Law prohibits the Board of Directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. The Board of Directors has the power to perform the general management of our affairs and to decide, among other things, the following issues:

- determination of the Company's business priorities and approval of annual and quarterly budgets of the Company;
- convening annual and extraordinary general shareholders' meetings, except for certain cases specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting;
- determination of the record date for shareholders entitled to participate in the general shareholders' meeting and other issues in connection with preparation for, and holding of, general shareholders' meetings;
- appointment of the President (chief executive body);
- appointment of the members of the Management Board;
- increase of our share capital by issuing shares constituting 25% or less of the number of issued and outstanding shares via open subscription;
- issuance of bonds or other securities convertible into our shares when placed by either closed subscription or open subscription if the amount of shares into which such securities may be converted does not exceed 25% of the number of issued and outstanding shares;
- preliminary approval of annual reports;
- determination of the value of property, price of the securities to be issued in cases specified by the Joint Stock Companies Law and of the purchase price at which our securities may be repurchased by us;
- recommendations on the amount of remuneration to be paid to members of the Review Commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of dividends and the payment procedure thereof;
- use of our reserve fund and other funds;
- approval of our internal documents, except for those documents the approval of which falls within the competence of the general shareholders' meeting or the President (chief executive officer);
- establishment of branches and representative offices and their liquidation;
- approval of major and interested party transactions in cases specified by the Joint Stock Companies Law;
- appointment of a share registrar as well as approval of terms and conditions of, and termination of, the agreement with the registrar; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

According to our charter, meeting of the Board of Directors has a quorum if half of its members elected at a general shareholders' meeting are present at the meeting. As of the date of this Information Memorandum, five members of the Board of Directors present at the meeting constitute the quorum. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions require either the unanimous vote of all members of the Board of Directors

(such as approvals of major transactions) or a majority vote of the disinterested and independent directors (such as approval of interested party transactions). In the case of a tied vote the chairman of the Board of Directors has the casting vote.

### **Management Board**

The Management Board is the collective executive body responsible for the Company's day-to-day management. The activities of the Management Board are governed by the Joint Stock Companies Law, the charter and internal regulations approved in accordance therewith. Our charter provides that the number of members of the Management Board is determined by the Board of Directors. The Management Board is elected, and the powers of its members may be terminated, by the Board of Directors. Currently, the Management Board consists of five members. See "*Directors, Management and Corporate Governance — Management Board*". Under the Joint Stock Companies Law, no more than 25% of the members of the Board of Directors may serve as members of the Management Board. The duties of the Management Board include, among other things:

- adoption of our internal regulations except for regulations that should be adopted by the General Meeting or by the Board of Directors;
- appointment of the heads of our branches and representative offices;
- recommendation of the candidates for a post of chief executive officers, members of the board of directors and management board of our subsidiaries;
- other issues as provided for in our charter.

Under our charter, resolutions of the Management Board are taken by a majority vote of members of the Management Board present at its meeting.

### **President (Chief Executive Officer)**

Pursuant to our charter, the President (chief executive officer) is our sole executive body and is entitled to perform our day-to-day management. The general shareholders' meeting appoints the President (chief executive officer) for a term of three years but can remove him/her at any time.

The President (chief executive officer) exercises day-to-day control over our activities and is accountable to the Board of Directors and the general shareholders' meeting. The President (chief executive officer) is authorized, without a power of attorney, to act on our behalf. The President (chief executive officer) may be held liable for losses caused to us. Under our charter, the powers of the President (chief executive officer) include, among other things, the following issues:

- entering into transactions on our behalf as provided by the Joint Stock Companies Law and our charter;
- issuing powers of attorney on our behalf;
- entering into, or termination of, employment contracts with our employees; and
- approval of our staffing table and making mandatory orders and instructions for our employees.

### **Review Commission**

Our Review Commission, whose activities are governed by our charter, oversees and coordinates audits of our financial and economic activity. The principal duties of the Review Commission are to help ensure that our operations comply with applicable laws and that our RAS accounting and reporting documents are prepared in accordance with applicable requirements and are complete and accurate.

The general shareholders' meeting elects the Review Commission members until the next annual general shareholders' meeting.

### **Interested Party Transactions**

The Joint Stock Companies Law contains requirements with respect to interested party transactions. An interested party transaction is a transaction with an “interested party,” which is defined as a member of the board of directors of the company, a person performing functions of the sole executive body (chief executive officer) (including a managing company or a manager, which performs functions of the sole executive body (chief executive officer) of the company under a contract), a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20% of the company’s voting shares, or any person able to issue binding instructions to the company, if any of the abovementioned persons, or any of these persons’ spouses, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds offices in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The Joint Stock Companies Law requires that a transaction with an interested party must be approved by a majority vote of the disinterested members of the board of directors or by a decision of the majority of disinterested shareholders holding voting shares, as applicable.

In a company with more than 1,000 shareholders holding voting shares, a disinterested director is entitled to vote on the approval of an interested party transaction only if he/she is an “independent director,” *i.e.* a member of the board of directors who is not, and within one year preceding the decision was not, (i) performing the functions of the sole executive body (chief executive officer) (including being a manager) or a member of the collective executive body of the company, or holding offices in management bodies of the managing company, (ii) a person whose spouse, close relatives, adoptive parents or children hold positions in any of the abovementioned management bodies, managing company of the company, or a manager of the company, or (iii) otherwise an affiliate of the company (except for the members of the board of directors of the company).

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares if:

- the value of such a transaction, or series of transactions, is 2% or more of the balance sheet value of the company’s assets as of the last reporting date;
- the transaction, or series of transactions, involves the placement by subscription or the sale of ordinary shares in the amount exceeding 2% of the company’s issued ordinary shares and ordinary shares into which the issued convertible securities may be converted;
- the transaction, or series of transactions, involves the placement by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding 2% of the company’s issued ordinary shares and ordinary shares into which the issued convertible securities may be converted;
- all members of the board of directors of the company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of the disinterested directors of the company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions entered into by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual general shareholders’ meeting.

The approval of interested party transactions is not required in the following instances:



- the company has only one shareholder that simultaneously performs the functions of the sole executive body (chief executive officer) of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares or securities convertible into shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with or into another company; or
- entering into a transaction is mandatory for the company according to Russian legislation and settlement with respect to which is effected in accordance with the fixed prices and tariffs established by authorized regulatory authorities.

An interested party transaction entered into in breach of the abovementioned rules may be invalidated by a court following an action by the company or any of its shareholders and the interested party can be liable to the company for any loss incurred by such company as a result of such breach.

### **Major Transactions**

The Joint Stock Companies Law defines a “major transaction” as a transaction, or a series of transactions, involving the acquisition or disposal, or the possibility of disposal of property with the value of 25% or more of the balance sheet value of the assets of the company as determined under RAS as of the latest reporting date, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement by subscription (sale) of ordinary shares, or placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the company’s assets, as determined under RAS as of the latest reporting date, require unanimous approval by all members of the board of directors or, in the absence of such approval, a simple majority vote of a general shareholders’ meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters majority vote of a general shareholders’ meeting.

The approval of a major transaction is not required if a company has only one shareholder that simultaneously performs the functions of the sole executive body (chief executive officer) of the company.

Any major transaction entered into in breach of the above requirements may be invalidated by a court following an action by the company or any of its shareholders.

### **Shareholders’ Agreements**

The Joint Stock Companies Law has been recently amended to expressly permit shareholders’ agreements in respect of Russian joint stock companies. In particular, the Joint Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholder rights, including, inter alia:

- to vote in a certain manner at a general shareholders’ meeting;
- to coordinate voting with other shareholders;
- to acquire or dispose of shares at a pre-determined price or upon occurrence of certain circumstances;
- to refrain from disposing of shares until occurrence of certain circumstances; and
- to perform jointly other actions relating to the company’s management, activities, reorganization and liquidation.

Provisions of the Joint Stock Companies Law in respect of shareholders’ agreements are very generic and have been largely untested. It remains to be seen how this new regulation is implemented and enforced in practice.

## **Change of Control and Anti-takeover Protection**

Effective July 1, 2006, Russian legislation has been amended to introduce new anti-takeover provisions. The key anti-takeover provisions of the revised Joint Stock Companies Law are as follows:

A person intending to acquire more than 30% of an open joint stock company's voting shares, including for such purpose shares already owned by such person and its affiliates, has the right to make a public offer to purchase the remaining shares from other shareholders (voluntary offer).

Within 35 days after acquisition by any means of more than 30%, 50% or 75% of voting shares or 35 days from the date when the acquirer learned or should have learned that it, either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer).

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, including shares owned by its affiliates, it is required to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer may deliver a buy-out demand, binding on the minority shareholders, that they sell their shares if the acquirer crossed the 95% threshold by acquiring at least 10% of the voting shares in a voluntary or mandatory offer.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by an irrevocable bank guarantee of payment, a share price valuation report prepared by an independent appraiser and certain other documents. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, respectively) to purchase shares in the quantity of and at the price that are greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of the voluntary or mandatory offer, only the company's shareholders' meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of interested party and certain other transactions and on certain other significant matters.

## **Foreign Ownership**

The Law on Enterprises Important for State Security regulates foreign investments (whether direct or indirect) in Russian businesses having strategic importance for procuring state defense and security ("**Enterprises Important for State Security**") and, inter alia, requires foreign investors to receive a prior consent of the special government commission before acquiring certain percentages of voting shares or certain management rights in respect of Enterprises Important for State Security. Currently, we are not considered to be an Enterprise Important for State Security for purposes of the Law on Enterprises Important for State Security and except as described below foreign investments in our shares are not restricted.

At the same time, Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated 9 July 1999, as amended ("**Foreign Investments Law**"), provides that any acquisition (whether direct or indirect) by a foreign state or international organization or entities controlled by them of (i) more than 25% of voting shares of a Russian company (such as ourselves); or (ii) any powers to block decisions of the management bodies of a Russian company (such as ourselves), require a prior approval of the special government commission in accordance with the procedures set forth in the Law on Enterprises Important for State Security.

In addition, foreign persons registered as individual entrepreneurs in Russia and foreign companies (regardless of whether they are registered with the Russian tax authorities) that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by

foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of our shares.

### **Notification of Acquisition of Significant Interest**

Pursuant to Russian securities legislation, a person must notify the company and the FSFM of any acquisition of 5% or more of the ordinary shares, or acquisition of the right to cast votes attached to 5% or more of the ordinary shares by virtue of an agreement or otherwise, and any change in the number of the ordinary shares above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. Each notification should contain the name of the acquirer, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired (or votes with respect to which can be cast). Such notifications must be generally given within five days after the ordinary shares have been transferred to such shareholder's securities account or after the acquisition of the right to cast votes attached to such ordinary shares.

### **Antimonopoly Regulation**

Under the Federal Law No. 135-FZ "On Protection of Competition" dated July 26, 2006, as amended (the "**Competition Law**"), a person (or a group of affiliated persons) may be considered as having a dominant position in a particular market. A dominant position may arise in circumstances when (a) the person (or a group of affiliated persons) has a market share in a particular market in excess of 50%, unless it is specifically established that the person (or a group of affiliated persons) does not have a dominant position; (b) the person has a market share in a particular market in excess of 35% (but less than 50%), and it is specifically established by the FAS that the person (or a group of affiliated persons) has a dominant position based on the following factors: (i) the share of the person in the relevant market is permanent or is subject to insignificant changes as compared to competitors' shares in the same market; (ii) the likelihood of successful entry into the relevant market by a new competitor is low; or (iii) other criteria characterizing the market that the FAS deems relevant; or (c) the person has a market share in a particular market less than 35% but exceeding shares of competitors in the same market, which can have a crucial impact on general conditions of commodity circulation in the market, if (i) the person can unilaterally determine a price level and have a crucial impact on general conditions of sales in the relevant market; (ii) access to the relevant market of new competitors is hampered due to economic, technological, administrative or other limitations; (iii) the commodity being sold or purchased by the person cannot be replaced by other commodities in the course of consumption; and (iv) change of the commodity price does not condition the relevant decrease of demand for such commodity.

Under the Competition Law, a person with a dominant position in a particular market shall not engage in the following activities: (a) fix and maintain excessively high or excessively low prices; (b) withdraw goods or services from circulation resulting in price increases; (c) dictate terms unfavorable to a counterparty or irrelevant to the subject-matter of the agreement; (d) reduce or terminate production of goods or provision of services for reasons that are not economic or technological in nature, where demand for the goods or services exists, so long as the goods or services can be produced/provided at a profit; (e) refuse to enter into an agreement with particular buyers or customers for reasons that are not economic or technological in nature, where the goods or services can be produced or supplied; (f) fix differing prices (tariffs) for the same goods or services for reasons that are not economic or technological in nature; (g) create discriminatory conditions; (h) create barriers to enter or exit a particular market; (i) violate legal requirements relating to pricing; or (j) carry out any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other persons.

The FAS is authorized to issue binding orders on persons to eliminate abuse of a dominant position, as well as to transfer the profits obtained as a result of the illegal conduct to federal funds. The FAS also has a power to require in a court order a spin-off or split of business operations of a legal entity that holds a dominant position and repeatedly (*i.e.*, more than two times within three years) abuses its dominant position.

In addition to the above requirements set forth with regard to a dominant position, the Competition Law provides for a merger control regime, *i.e.*, the necessity of "approval prior to closing" by the FAS, of the following actions:

- acquisition by a person (or its group) of voting shares in a joint stock company resulting in such person (or its group) owning more than 25%, 50% and 75% of the voting shares of a joint stock company (1/3, 1/2 and 2/3 participation interest in a limited liability company); or acquisition by a person (or its group) of the core production assets and/or intangible assets of a person if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such person; or obtaining rights to determine the conditions of business activity of a person or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (and its group) together with a target (and its group) exceeds RUB 7 billion and at the same time the total asset value of the target (and its group) exceeds RUB 250 million; or the total annual revenues of such

acquirer (and its group) and the target (and its group) for the preceding calendar year exceed RUB 10 billion and at the same time the total asset value of the target (and its group) exceeds RUB 250 million or an acquirer, and/or a target, or any person within the acquirer's group or a target's group are included in the Register of Persons Having a Market Share in Excess of 35% in a Particular Commodity Market or Having Dominant Position on a Particular Commodity Market (the "FAS Register");

- mergers and consolidations of companies, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUB 3 billion; or total annual revenues of such companies (groups of persons to which they belong) for the preceding calendar year exceed RUB 6 billion; or if one of these companies is included into the FAS Register; and
- creation of a company, if its share capital is paid by the shares (participation interests) and/or the assets (except for monetary means) of another company or the newly created company acquires shares (participation interests) and (or) assets of another company on the basis of a transfer act or separation balance sheet and acquires the rights with respect to such shares (participation interests) and/or assets (except for cash) as specified in the first bullet point above provided that the aggregate asset value of the founders (group of persons to which they belong) and the persons (groups of persons to which they belong) which shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly created company exceeds RUB 7 billion; or total annual revenues of the founders (group of persons to which they belong) and the persons (groups of persons to which they belong) which shares (participation interests) and/or assets are contributed to the share capital of the newly founded company for the preceding calendar year exceed RUB 10 billion; or if a company whose shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly founded company is included in the FAS Register.

The Competition Law establishes a 30-day review period for pre-closing approval of transactions. The review period may be extended for a further two months if the FAS believes the prospective transaction might restrict competition with respect to a particular market.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the antimonopoly authorities in connection with actions specified in the first bullet point above if the aggregate asset value or total annual revenues of an acquirer (and its group) and a target (and its group) for the preceding calendar year exceed RUB 400 million and at the same time the total asset value of the target (and its group) exceeds RUB 60 million; and in connection with actions specified in the second bullet point above if their aggregate asset value or total annual revenues of the relevant companies for the preceding calendar year exceed RUB 400 million.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court order initiated by the FAS, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of anti-monopoly legislation.

## MATERIAL CONTRACTS

The following contracts are, or may be, material or have been entered into at any time by any member of our Group and contain provisions under which any member of our Group has an obligation or entitlement which is, or may be, material to our Group as of the date of this Information Memorandum.

### Major Credit Agreements

#### RUB 16,000 million and RUB 12,750 million Sberbank Term Credit Facilities

On September 18, 2009, the Company entered into a RUB 16,000 million secured term credit facility agreement with Sberbank (as amended on May 14, 2010 and December 15, 2010). The loan was provided to refinance our debt, which was owed to Sberbank and specified in the credit agreement, and to co-invest in real estate development and acquire transparent elements of multi-apartment buildings. As of June 30, 2011, the outstanding amount under this credit facility was RUB 15,844 million. The loan is repayable in eleven quarterly installments starting from March 20, 2012 and has a final maturity date of September 12, 2014. Pursuant to the amended agreement dated December 15, 2010, starting from July 21, 2010, the interest rate on this loan is 10.5% *per annum* payable quarterly. In addition, pursuant to the amended agreement dated May 14, 2010, the Company is required to pay a service fee at a rate of 1.5% of the total amount of the loan, including any undrawn amounts, *per annum*, payable in eleven quarterly installments starting from March 20, 2012.

On September 18, 2009, our subsidiary PIK-Region entered into a RUB 12,750 million secured term credit facility agreement with Sberbank (as amended on October 12, 2009, May 14, 2010 and December 15, 2010). The purpose of the loan is to finance our construction and development activities. As of June 30, 2011, the outstanding amount under this facility was RUB 10,193 million. The loan is repayable in eleven quarterly installments starting from March 20, 2012 and has a final maturity date of September 12, 2014. Pursuant to the amended agreement dated December 15, 2010, starting from July 21, 2010, the interest rate on this loan is 10.5% *per annum* payable quarterly. In addition, pursuant to the amended agreement dated May 14, 2010, the Company is required to pay a service fee at a rate of 1.5% of the total amount of the loan, including any undrawn amounts, *per annum*, payable in eleven quarterly installments starting from March 20, 2012.

The terms and conditions of the Sberbank secured term credit facility agreement with the Company, which are substantially the same as the terms and conditions of the Sberbank secured term credit facility agreement with PIK-Region (jointly, the “**Sberbank Credit Facilities**”), are discussed below.

#### *Major covenants and events of default*

The Sberbank Credit Facilities require us to comply with certain affirmative and negative covenants. In particular, we are required to ensure that the ratio of our consolidated net debt to our EBITDA (as defined in the Sberbank Credit Facilities) does not exceed the levels specified in the Credit Facilities. In particular, we are required to maintain our consolidated net debt/EBITDA ratio below 2.2 as of December 31, 2009; 2.9 as of December 31, 2010; 5.1 as of December 31, 2011; 3.1 as of December 31, 2012; 2.9 as of December 31, 2013.

We are also subject to a number of negative covenants that restrict our ability to enter into certain agreements or perform certain actions without consent of Sberbank, including but not limited to the following:

- neither the Company nor any subsidiary listed in the Sberbank Credit Facilities is allowed to make any borrowings or provide guarantees, if the amount of incurred debt (provided guarantee) exceeds RUB 300 million (for the Company) or RUB 100 million (for any of our subsidiaries) per transaction;
- neither the Company nor any subsidiary listed in the Sberbank Credit Facilities is allowed to dispose of or pledge any assets exceeding 10% of the total value of the assets of the Company (or a subsidiary) calculated in accordance with RAS.

In addition, we are required to provide Sberbank with our consolidated financial statements prepared in accordance with IFRS on an annual basis, financial statements and other financial reporting data of the Company and PIK-Region prepared in accordance with RAS on a quarterly basis and notify Sberbank of any significant corporate events, including merger, dissolution, change of a major shareholder, election (appointment) of new officers and directors.

Our non-compliance with the covenants of the Sberbank Credit Facilities may constitute an event of default. In addition, the following events also constitute events of default under the Sberbank Credit Facilities: any default of the Company or any subsidiary under any credit facility with Sberbank, any payment default of the Company or any subsidiary in respect of debt evidenced by promissory notes in the aggregate amount exceeding RUB 100 million, acceleration of any bank debt owed by the Company or any subsidiary in the aggregate amount exceeding RUB 500 million, insolvency, liquidation, reorganization or material adverse change of financial condition of the Company, PIK-Region or any subsidiary providing guarantees or granting security interest in its property in favor of Sberbank, that, in the opinion of Sberbank, may prevent us, PIK-Region, any guarantor or pledgor from meeting its obligations under the Sberbank Credit Facilities in full or in a timely manner.

We believe we have dealt adequately with historic defaults under the Sberbank Credit Facilities by obtaining letters from Sberbank indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt. We failed to maintain the consolidated net debt/EBITDA ratio at the levels required under the Sberbank Credit Facilities in 2009 and 2010 which resulted in an event of default. In June 2011, we obtained letters from Sberbank indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt because of these breaches of financial covenants.

In addition, a bankruptcy claim was filed against us in September 2011 resulting in a potential event of default under the Sberbank Credit Facilities. See *“Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us”*. We received a letter from Sberbank on September 20, 2011 indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on any defaults arising from the bankruptcy claim.

However, we cannot give any assurance that Sberbank will not change the intentions expressed in any of these letters or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letters as these letters are not legally binding in Russia.

### **Security**

Up to RUB 14,375 million of the principal amount of the loans provided under the Sberbank Credit Facilities is secured by the State Guarantees. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources — Debt restructuring completed in February 2011.”*

Under the terms of the State Guarantees, in case of our (or PIK-Region’s) failure to repay any portion of the principal amount of debt owed to Sberbank, the Russian Government agreed to pay to Sberbank up to 50% of the principal amount of our (or PIK-Region’s) debt outstanding as of the day of such payment default, but not more than RUB 14,375 million. The State Guarantees expire in November 2014, two months after the final maturity dates of the credit agreements with Sberbank. We were not required to make any payments as a consideration for the issuance of the State Guarantees.

The loans are also secured by guarantees of the Company, PIK-Region, DSK-2, DSK-3, NSS and StroyInvest; by pledges of shares (participation interests) in the following companies: PIK-Region, DSK-2, DSK-3, NSS, Podmoskovie 160 DSK, StroyInvest, Stroybusinesscenter, Status Land (which holds development rights to the Kommunarka village property in the Moscow region), KHZ (which holds development rights to the Perovskaya 66 property in Moscow), Monetchik (which holds development rights to the Kuntsevo property in Moscow); a mortgage over the land plot comprising the Kommunarka village development site, mortgage over the construction in progress comprising the Ryabinovaya development, a mortgage over certain premises owned by us in Moscow; a pledge of our rights under the investment contracts with respect to all developments financed out of the proceeds from the Sberbank Credit Facilities, including a pledge of rights under the investment contract with respect to the Krasnaya Gorka (Lubersy) project.

### **RUB 4,000 million and RUB 1,900 million Nomos-Bank Term Credit Facilities**

On February 18, 2011, we entered into a RUB 4,000 million credit facility with Bank Otkritie. The loan was provided to finance our investment contribution under a co-investment agreement entered with our subsidiary, PIK-Region, in January 2011 with respect to the development of a “micro district” in Khimki. On April 28, 2011, Bank Otkritie assigned its rights under the bridge loan facility to Nomos-Bank. As of June 30, 2011, the loan was fully drawn. The loan is repayable in nine quarterly installments starting from March 31, 2012 and has a final maturity date of January 17, 2014. The repayment schedule is revised upon commencement of an offering of securities, in which case we are obligated to repay RUB 1,200 million within ten business days from the date of state registration of the report on the results of the additional share issuance with the FSFM.

In the case of a securities offering, the remaining amount of the loan will be repayable in nine quarterly installments starting from March 31, 2012. The interest rate on this loan is 16% *per annum* payable monthly.

On May 17, 2011, we entered into a RUB 1,900 million secured term credit facility agreement with Nomos-Bank. The loan was provided to refinance certain debt owed to Rucklers Properties Limited and specified in the credit agreement. As of June 30, 2011, the outstanding amount under this loan was RUB 1,890 million. The loan has a final maturity date of January 17, 2014. The interest rate on this loan is 14% *per annum* payable monthly.

The terms and conditions of the RUB 4,000 million bridge loan facility, which are substantially the same as the terms and conditions of the RUB 1,900 million credit facility (jointly, the “**Nomos-Bank Credit Facilities**”) are discussed below.

#### ***Major covenants and events of default***

The Nomos-Bank Credit Facilities require us to comply with certain affirmative and negative covenants. In particular, the Company is not allowed to dispose of or pledge any real property exceeding 20% of the book value of the assets of the Company without consent of the bank. In addition, we are required to provide Nomos-Bank with our financial statements and other financial reporting data prepared in accordance with RAS on a quarterly basis, our audited financial statements on an annual basis; and notify Nomos-Bank of any borrowings made by the Company; guarantees given by the Company or pledges of property, in each case in the aggregate amount exceeding RUB 300 million, as well as provide Nomos-Bank with other information and documentation specified in the Nomos-Bank Credit Facilities.

Our non-compliance with the covenants of the Nomos-Bank Credit Facilities may constitute an event of default. In addition, other events specified in the Nomos-Bank Credit Facilities also constitute events of default. Other events include, *inter alia*, any default of the Company, any pledgor or guarantor under the Nomos-Bank Credit Facilities under any credit facilities or other agreements with Nomos-Bank; insolvency, liquidation, reorganization of the Company, pledgor or guarantor; any court claims brought against the Company, any pledgor or guarantor in the amount exceeding 20% of the book value of their assets; or a material adverse change in the financial condition of the Company resulting in a decrease of its net assets by more than 25% determined under RAS.

We believe that we are in compliance with the covenants of the Nomos-Bank Credit Facilities.

#### ***Security***

The Nomos-Bank Credit Facilities are secured by guarantees of KSRZ, Veistoun, Gazstroy Mash, Blakeston Holdings Limited, Stroycoresurs, Almore Ventures Limited and Piolenta Holdings Limited, as well as by the pledge of 100% of the shares in KSRZ, 86.6% of the shares in Gazstroy Mash and 100% of the participation interests in Veistoun. The loans are also secured by a mortgage over certain real property owned by KSRZ and Gazstroy Mash and a pledge of lease rights over the land plot comprising our Marshala Zakharova 7 development site in Moscow.

#### **RUB 3,056 million VTB Term Credit Facility**

On December 21, 2009, the Company entered into a RUB 3,056 million secured term credit facility agreement with VTB (the “**VTB Credit Facility**”). The loan was provided to refinance our debt, which was owed to VTB and specified in the credit agreement. The remaining amount of the loan could be used for general corporate purposes. We are not allowed to use the loan proceeds to refinance other debt or invest in certain financial instruments. As of June 30, 2011, the loan was fully drawn. The final maturity date of the loan is December 20, 2012. The interest rate on this loan is 11.63% *per annum* payable quarterly. The terms and conditions of the VTB Credit Facility are discussed below.

#### ***Major covenants and events of default***

The VTB Credit Facility requires us to comply with certain affirmative and negative covenants. In particular, we are subject to a number of negative covenants that restrict our ability to enter into certain agreements or perform certain actions without consent of VTB, including but not limited to the following:

- make any borrowings, if the aggregate amount of incurred debt exceeds USD 100 million per year;
- dispose of or pledge any assets, including shares in our subsidiaries, exceeding USD 100 million per year;

- enter into related-party transactions other than on arm's length terms;
- acquire any shares (participatory interests) in any companies or partnership for the total consideration, exceeding USD 100 million per year;
- declare dividends, amend our organizational documents, carry out any reorganization, including merger and transformation, issue additional shares to any party other than existing shareholders of the Company pro-rata to their shares in our capital.

In addition, we are required to provide VTB with our financial statements and other financial reporting data prepared in accordance with RAS on a quarterly basis; our audited financial statements on an annual basis; and notify VTB of any significant corporate events, including merger, change of organizational documents, dissolution, change of a major shareholder, election (appointment) of new officers and directors, as well as of disposal of assets and other significant changes in our business and financial condition.

Our non-compliance with the covenants of the VTB Credit Facility may constitute an event of default. In addition, other events specified in the VTB Credit Facility also constitute events of default. These events, *inter alia*, include any payment default of the Company under any agreement in the aggregate amount exceeding RUB 400 million; insolvency, liquidation, reorganization or material adverse change of financial condition of the Company, pledgor or guarantor; disposal of property exceeding 10% of the book value of the assets of the Company under RAS; our failure to obtain or renew material licenses or their revocation, certain criminal charges against members of our Board of Directors or senior managers; delisting of our Ordinary Shares from MICEX or RTS; delisting of our GDRs.

We believe we have dealt adequately with historic defaults under the VTB Credit Facility by obtaining a letter from VTB indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on past defaults. The VTB Credit Facility contains a cross-default provision entitling the bank to declare indebtedness owed to it immediately due and payable if, *inter alia*, we have overdue debt exceeding specified thresholds. Our failure to make timely repayments of some of our other credit facilities in 2009 resulted in a breach of this cross default provision. In March 2010, when these breaches of the cross default provisions were no longer continuing we obtained a letter from VTB stating that the bank as of the date of the letter did not intend to accelerate the debt based on past defaults. Since we have not suffered any payment defaults since March 2010, we believe that VTB will not demand immediate repayment of the VTB Credit Facility.

In addition, the bankruptcy claim was filed against us in September 2011 resulting in an event of default under the VTB Credit Facility. See "*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*". We received an email from VTB on September 20, 2011 indicating that the bank as of the date of the email had no intent to demand immediate repayment of the debt based on any defaults arising from the bankruptcy claim.

However, we cannot give any assurance that VTB will not change the intentions expressed in the letter of March 2010 or the email of September 20, 2011 or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter and/or email as they are not legally binding in Russia.

### **Security**

The VTB Credit Facility is secured by guarantees of Holborner Services Ltd. and Mr. Suleiman Kerimov, the ultimate beneficial owner of the Nafta Moskva Group, which is one of our major shareholders through this company, as well as by the pledge of 25,397,363 of our Ordinary Shares, owned by Holborner Services Ltd., and 14,850,131 GDRs, owned by Holborner Services Ltd.

### **USD 65 million and USD 30 million Rosbank Term Credit Facilities**

On December 18, 2009, the Company entered into a USD 65 million secured term credit facility agreement with Rosbank. The loan was provided to refinance our debt, which was owed to Rosbank and specified in the credit agreement. As of June 30, 2011, the loan was fully drawn. The loan is repayable in eleven equal quarterly installments starting in November 14, 2012 and has the final maturity date of May 14, 2015. The interest rate on this loan is 10% *per annum*. Interest is payable quarterly, except for a portion of interest accrued for the first 15 months after the draw down under the credit facility, which is payable at the end of such 15-month period.



On December 18, 2009, our subsidiary Krasniy Vostok, holding development rights to the Mironovskaya Street 46 property in Moscow, entered into a USD 30 million secured term credit facility agreement with Rosbank. The loan was provided to refinance our debt, which was owed to Rosbank and specified in the credit agreement. As of June 30, 2011, the loan was fully drawn. The loan is repayable in eleven equal quarterly installments starting in November 14, 2012 and has a final maturity date of March 1, 2015. The interest rate on this loan is 10% *per annum*. Interest is payable quarterly, except for a portion of interest accrued for the first 15 months after the draw down under the credit facility, which is payable at the end of such 15-month period.

The terms and conditions of the Rosbank secured term credit facility agreement with the Company, which are substantially the same as the terms and conditions of the Rosbank secured term credit facility agreement with Krasniy Vostok (jointly, the “**Rosbank Credit Facilities**”), are discussed below.

### *Major covenants and events of default*

The Rosbank Credit Facilities require us and Krasniy Vostok to comply with certain covenants. In particular, we are required to provide Rosbank with our consolidated financial statements prepared in accordance with IFRS on a semiannual basis and the Audited Consolidated Financial Statements prepared in accordance with IFRS on an annual basis, financial statements and other financial reporting data of the Company and all guarantors prepared in accordance with RAS on a quarterly basis, and notify Rosbank of any significant corporate events, including amendments to organizational documents, merger, dissolution, election (appointment) of new officers and directors, opening of new bank accounts. In addition, Krasniy Vostok agreed not carry out any development activities with respect to the Mironovskaya Street 46 property without consent of Rosbank. We have agreed to appoint a person nominated by Rosbank as the Chief Executive Officer of Krasniy Vostok and not to replace the Chief Executive Officer without consent of Rosbank.

Our non-compliance with the covenants of the Rosbank Credit Facilities may constitute an event of default. In addition, other events specified in the Rosbank Credit Facilities also constitute events of default. These events, *inter alia*, include insolvency, liquidation, reorganization or material change of the business of the Company or Krasniy Vostok, official decision of a tax authority that the Company or Krasniy Vostok is late in its tax payments in the amount exceeding RUB 200 million and RUB 25 million, respectively, any seizure of assets or a suspension of operations of any bank account Krasniy Vostok, a seizure of assets of the Company in the amount exceeding RUB 500 million or a suspension of operations of any bank account of the Company, Arbitrazh court claims brought against any of our subsidiaries for the amount exceeding USD 50 million as well as Arbitrazh court claims brought against all our subsidiaries in the aggregate amount exceeding USD 100 million.

We believe we have dealt adequately with historic defaults under the Rosbank Credit Facilities by curing the relevant defaults and obtaining a letter from Rosbank indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on past defaults. The Rosbank Credit Facilities entitle the lender to accelerate indebtedness owed to it if, *inter alia*, the total amount of litigation claims against us exceeds certain permitted limits. As of June 30, 2011, we exceeded the permitted limits and, therefore, were as at that date in default under the Rosbank Credit Facilities. However, this default is no longer continuing as some of the relevant litigations have since been settled. On September 2, 2011, when the breach of the litigation covenant was no longer continuing we obtained a letter from Rosbank indicating that as of the date of the letter the bank had no intent to demand immediate repayment of the debt based on past defaults. However, we cannot give any assurance that Rosbank will not change its intentions expressed in the letter of September 2, 2011 or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as it is not legally binding in Russia.

Furthermore, our USD 65 million credit facility with Rosbank entitles the lender to accelerate indebtedness owed to it if, *inter alia*, (i) the Company shows signs of insolvency under applicable laws; and/or (ii) an event has occurred, which under applicable laws may result in liquidation of the Company. We believe we have reasonable grounds to argue that no default occurred under the USD 65 million Rosbank credit facility as a result of the bankruptcy claim filed against us in September 2011. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. To mitigate the risk that Rosbank takes a different position with respect to the interpretation of the relevant provisions in the USD 65 million Rosbank credit facility, we obtained a letter from it on September 21, 2011 indicating that the bank had no intent to demand immediate repayment of the debt based on any potential defaults arising from the bankruptcy claim. However, we cannot give any assurance that Rosbank will not change its intentions expressed in the letter of September 21, 2011 or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as it is not legally binding in Russia.

## ***Security***

The Rosbank Credit Facilities are secured by guarantees of the Company, Krasniy Vostok, PIK-Region, DSK-2, DSK-3, 100 KGI, 480 KGI and Stroybusinesscenter; by pledges of shares (participation interests) in the following companies: 100 KGI, 480 KGI; mortgage over the land plot comprising the Mironovskaya Street 46 development site, mortgage over the buildings that are currently located on this development site, mortgage over our administrative building in Moscow and two land plots in the Kaliningrad region intended for future development, pledge of certain properties of 100 KGI and 480 KGI.

### **RUB 1,900 million and RUB 600 million Binbank Term Credit Facilities**

On November 6, 2009, we entered into a RUB 1,900 million secured term credit facility agreement with Binbank (as amended on November 6, 2009, June 15, 2010, December 30 and February 4, 2011). The loan was provided for general corporate purposes. We are not allowed to use the loan proceeds to refinance other debt or invest in certain financial instruments. As of June 30, 2011, the loan was fully drawn. The loan becomes due and payable on February 4, 2012. The interest rate on this loan is 14% *per annum* payable in one installment on February 4, 2012.

On April 22, 2011, we entered into a RUB 600 million secured term credit facility agreement with Binbank. The loan was provided for general corporate purposes. We are not allowed to use the loan proceeds to refinance other debt or invest in certain financial instruments. As of June 30, 2011, the outstanding amount under his credit facility was RUB 400 million. The loan becomes due and payable on December 30, 2011. The interest rate on this loan is 13% *per annum* payable quarterly.

The terms and conditions of the RUB 1,900 million secured term credit facility agreement, which are substantially the same as the terms and conditions of the RUB 600 million secured term credit facility agreement (jointly, the “**Binbank Credit Facilities**”) are discussed below.

### ***Major covenants and events of default***

The Binbank Credit Facilities require us to comply with certain affirmative and negative covenants. In particular, the Company is not allowed to dispose of or pledge any assets exceeding 30% of the total value of the assets of the Company without consent of the bank. In addition, we are required to provide Binbank with financial statements of the Company prepared in accordance with RAS on a quarterly basis, as well as to update Binbank on the shareholding structure of the Company, including information on ultimate beneficiaries of the Company, notify Binbank of any borrowings made by the Company or guarantees given by the Company and provide Binbank with other information and documentation specified in the Binbank Credit Facilities.

Our non-compliance with the covenants of the Binbank Credit Facilities may constitute an event of default. In addition, certain other events also constitute events of default under the Binbank Credit Facilities, including insolvency, liquidation, reorganization or material adverse change of financial condition of the Company, any pledgor or guarantor, revocation of a material license of the Company, any pledgor or guarantor.

The bankruptcy claim filed against us in September 2011 resulted in an event of default under the Binbank Credit Facilities. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We received a letter from Binbank on September 20, 2011 indicating that the bank as of the date of the letter had no intent to demand immediate repayment of the debt based on any defaults arising from the bankruptcy claim. However, we cannot give any assurance that Binbank will not change the intention expressed in this letter or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as this letter is not legally binding in Russia.

## ***Security***

The Binbank Credit Facilities are secured by a guarantee of Holborner Services Ltd., one of our shareholders, and by a pledge of 26,181,999 Ordinary Shares and 30,613,683 GDRs owned by Holborner Services Ltd.

### **RUB 1,519 million Absolut Bank Term Credit Facility**

On March 18, 2009, our subsidiary Stroybusinesscenter entered into a USD 1.4 million secured term credit facility with Housing Finance Bank, a lender affiliated with one of our Founding Shareholders, to meet our immediate working capital

needs. On December 18, 2009, Housing Finance Bank assigned its rights under the credit facility to Absolut Bank. Following the assignment, the credit facility was amended and restated on December 23, 2009 and further amended on December 9, 2010. The currency of the agreement was converted into the Rouble and the principal amount was increased to RUB 1,519 million. As of June 30, 2011, the outstanding amount was RUB 1,196 million. The credit facility is repayable in ten equal quarterly installments starting from September 25, 2012 and has a final maturity date of December 22, 2014. We fully repaid our facility with Absolut bank in September 2011.

### ***Security***

The loan is secured by (i) guarantees of the Company, PIK-Region, DSK-2, DSK-3 and Lacero Trading Ltd.; (ii) mortgage over our administrative building in Moscow; and (iii) by the pledge of 7,124,172 Ordinary Shares owned by Lacero Trading Ltd. As the credit facility was fully repaid in September 2011, the pledges are now in the process of being released.

### **USD 27.5 million Morgan Stanley Term Credit Facility**

On December 8, 2008, we entered into a USD 27.5 million secured term credit facility agreement with Morgan Stanley (as amended and restated on August 24, 2010). The loan was provided for general corporate purposes. However, we are not allowed to use the loan proceeds to refinance other debt or invest in certain financial instruments. As of June 30, 2011, the outstanding amount was USD 23.8 million. The loan is repayable in eighteen equal monthly installments starting from January 26, 2012 and has a final maturity date of June 26, 2013. The interest rate on this loan is 10.3% *per annum* payable monthly.

Under the USD 27.5 million secured term credit facility agreement (the “**Morgan Stanley Credit Facility**”) if we receive certain types of proceeds, we are required to make mandatory prepayments of the loans. The amount subject to mandatory prepayment is divided pro rata between the Morgan Stanley Credit Facility and the Nomura Term Credit Facility. See “— *USD 27.5 million Nomura Term Credit Facility*.” We are required to make mandatory prepayments in the amounts equal to:

- 100% of the proceeds received by our Group from any offering or sale of Ordinary Shares, GDRs or any other equity instruments, convertible instruments or stock options;
- 100% of the proceeds received by our group from any public or private debt facilities, except for facilities provided for the purposes of refinancing of our existing indebtedness;
- 50% of the proceeds from sales of real estate units or any disposals of our interest in the Sovkhoznaya 11 development in the Moscow region; and
- 100% of the proceeds from sales of any assets other than in the ordinary course of business.

The terms and conditions of the USD 27.5 million secured term credit facility agreement are discussed below.

### ***Major covenants and events of default***

The Morgan Stanley Credit Facility requires us to comply with certain affirmative and negative covenants. In particular, we are required to ensure that the ratio of our EBITDA (as defined in the Morgan Stanley Credit Facility) to our interest expense, as stated in our consolidated financial statements prepared in accordance with IFRS, does not exceed the levels specified in the Morgan Stanley Credit Facility. In particular, we are required to maintain our EBITDA/interest expense ratio above 1.0 as of December 31, 2010; 2.5 as of December 31, 2011; and 4.0 as of December 31, 2011.

We are also subject to a number of negative covenants that restrict our ability to enter into certain agreements or perform certain actions without consent of Morgan Stanley (unless certain exceptions set out in the Morgan Stanley Credit Facility apply), including but not limited to the following:

- neither the Company nor any subsidiary is allowed to create or permit to subsist any security over any of its assets, if the secured indebtedness would represent more than 55% of our total indebtedness (excluding indebtedness incurred in connection with development projects in the North West of Russia);

- our subsidiaries are not allowed to incur any additional indebtedness, if the amount of indebtedness incurred by our subsidiaries exceeds 35% of the total indebtedness of our group (excluding indebtedness incurred in connection with development projects in the North West of Russia);
- neither the Company nor any subsidiary is allowed to dispose of any of its assets with the aggregate market value exceeding USD 50 million per year, other than in the ordinary course of business;
- neither the Company nor any material subsidiary is allowed to merge with or into another company or be subject to reorganization;
- neither the Company nor any subsidiary is allowed to make any loans or provide guarantees, excluding loans to certain other subsidiaries and equity accounted investees;
- neither the Company nor any subsidiary is allowed to enter in any transaction other than on arm's length terms;
- we are not allowed to change the general nature of the business of our group;
- the Company is not allowed to declare dividends, repurchase its own shares, reduce its charter capital or repay any shareholder loan.

In addition, we are required to provide Morgan Stanley with our audited (if prepared) or unaudited consolidated financial statements prepared in accordance with IFRS on a semiannual basis, with other financial reporting data of our Group on a quarterly basis and with copies of all documents sent to our shareholders; and notify Morgan Stanley of any transactions, which could trigger mandatory prepayment, of any material litigation, arbitration of administrative proceedings, any material environmental claims or occurrence of any default. In addition, we are required to be in compliance in all material respects with applicable legal and tax requirements and to complete construction of specified buildings on the Sovkhoznaya 11 development site by December 31, 2010.

Our non-compliance with the covenants of the Morgan Stanley Credit Facility may constitute an event of default. In addition, other events specified in the Morgan Stanley Credit Facility also constitute events of default. These events include:

- any borrowing of the Company or any subsidiary of the Company has or may become due and payable prior to its specified maturity as a result an event of default, unless the aggregate amount of such borrowings does not exceed USD 10 million;
- insolvency of the Company or any material subsidiary;
- failure of the Company or any material subsidiary to comply with a final court judgment or order;
- attachment, expropriation or execution affecting any assets of the Company or any material subsidiary with an aggregate value of USD 10 million;
- the Company, a guarantor or a pledgor evidences its intent to repudiate its obligations under the Morgan Stanley Credit Facility, guarantee and collateral agreements;
- the Nafta Moskva Group, together with any one of the Founding Shareholders, controls less than 40% of the Ordinary Shares;
- material adverse change of financial condition, business or operations of the Company or of our group has occurred or is expected to occur.

We breached certain covenants of the Morgan Stanley Credit Facility in 2009 and 2010, including certain financial covenants. We believe we have adequately dealt with breaches of certain non-payment defaults under the Morgan Stanley Credit Facility in 2009 and 2010, as well as breaches of certain financial covenants, by obtaining waivers from Morgan Stanley. In August 2010, we received a waiver of all events of default caused by such breaches that predated that waiver. However, the waiver predated and therefore did not cover our breach of certain financial covenants with respect to 2010. In addition, our subsequent defaults under the Sberbank Credit Facilities, the Rosbank Credit Facilities and our credit facility with Absolut Bank, which

has subsequently been repaid, triggered a cross-default under the Morgan Stanley Credit Facility. On September 16, 2011, we received a waiver of the existing defaults from Morgan Stanley. The waiver will become effective once we countersign it and incur certain expenses.

In addition, the bankruptcy claim filed against us in September 2011 constituted an event of default under the Morgan Stanley Credit Facility. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We have not received a waiver for defaults arising from the bankruptcy claim from Morgan Stanley and there is no assurance that we will receive it. Accordingly, Morgan Stanley is entitled to accelerate payment of the Morgan Stanley Credit Facility and foreclose on the assets pledged under it.

### **Security**

The loans are secured by the guarantee of PIK-Region and by the pledge of rights of PIK-Region under the investment contract with respect to the Sovkhoznyaya 11 development project in the Moscow region.

### **USD 27.5 million Nomura Term Credit Facility**

On December 11, 2008, the Company entered into a USD 27.5 million secured term credit facility agreement with Nomura (as amended and restated on August 24, 2010). The loan was provided for general corporate purposes. As of June 30, 2011, the outstanding amount was USD 14.4 million, including capitalized interest. One eighteenth of the principal amount of the loan is repayable each month starting from January 26, 2012. The final maturity date is June 26, 2013. The interest rate on this loan is 10.3% *per annum* payable monthly.

Under the USD 27.5 million secured term credit facility agreement (the “**Nomura Credit Facility**”), if we receive certain types of proceeds, we are required to make mandatory prepayment of the loan. The amount subject to mandatory prepayment is divided pro rata between the Morgan Stanley Credit Facilities and the Nomura Credit Facility. See “— *USD 27.5 million Morgan Stanley Term Credit Facility.*” We are required to make mandatory prepayments in the amounts equal to:

- 100% of the proceeds received by our group from any offering or sale of shares, GDRs or any other equity instruments, convertible instruments or stock options;
- 100% of the proceeds received by our group from any public or private debt facilities, except for facilities provided for the purposes of refinancing of our existing indebtedness;
- 50% of the proceeds from sales of real estate units or any disposals of our interest in the Sovkhoznyaya 11 development in the Moscow region; and
- 100% of the proceeds from sales of any assets other than in the ordinary course of business.

The terms and conditions of the Nomura Credit Facility are discussed below.

### **Major covenants and events of default**

The Nomura Credit Facility requires us to comply with certain affirmative and negative covenants. In particular, we are required to ensure that the ratio of our EBITDA (as defined in the Nomura Credit Facility) to our interest expense, as stated in our consolidated financial statements prepared in accordance with IFRS, does not exceed the levels specified in the Nomura Credit Facilities. In particular, we are required to maintain our EBITDA/interest expense ratio above 1 as of December 31, 2010; 2.5 as of December 31, 2011; 4 as of December 31, 2011.

We are also subject to a number of negative covenants that restrict our ability to enter into certain agreements or perform certain actions without consent of Nomura (unless certain exceptions set out in the Nomura Credit Facility apply), including but not limited to the following:

- neither the Company nor any subsidiary is allowed to create or permit to subsist any security over any of its assets, if the secured indebtedness would represent more than 55% of our total indebtedness (excluding indebtedness incurred in connection with development projects in the North West of Russia);

- our subsidiaries are not allowed to incur any additional indebtedness, if the amount of indebtedness incurred by our subsidiaries exceeds 35% of the total indebtedness of our group (excluding indebtedness incurred in connection with development projects in the North West of Russia);
- neither the Company nor any subsidiary is allowed to dispose of any of its assets with the aggregate market value exceeding USD 50 million per year, other than in the ordinary course of business;
- neither the Company nor any material subsidiary is allowed to merge with or into another company or be subject to reorganization;
- neither the Company nor any subsidiary is allowed to make any loans or provide guarantees, excluding loans to certain other subsidiaries and equity accounted investees;
- neither the Company nor any subsidiary is allowed to enter in any transaction other than on arm's length terms;
- we are not allowed to change the general nature of the business of our group;
- the Company is not allowed to declare dividends, repurchase its own shares, reduce its charter capital or repay any shareholder loan.

In addition, we are required to provide Nomura with our audited (if prepared) or unaudited consolidated financial statements prepared in accordance with IFRS on a semiannual basis, with other financial reporting data of the Group on a quarterly basis and with copies of all documents sent to our shareholders; and notify Nomura of any transactions, which could trigger mandatory prepayment, of any material litigation, arbitration of administrative proceedings, any material environmental claims or occurrence of any default. In addition, we are required to be in compliance in all material respects with applicable legal and tax requirements and to complete construction of specified buildings on the Sovkhoznaya 11 development site by December 31, 2010.

Our non-compliance with the covenants of the Nomura Credit Facility may constitute an event of default. In addition, other events specified in the Nomura Credit Facilities also constitute events of default. These events include:

- any borrowing of the Company or any subsidiary of the Company has or may become due and payable prior to its specified maturity as a result an event of default, unless the aggregate amount of such borrowings does not exceed USD 10 million;
- insolvency of the Company or any material subsidiary;
- failure of the Company or any material subsidiary to comply with a final court judgment or order;
- attachment, expropriation or execution affecting any assets of the Company or any material subsidiary with an aggregate value of USD 10 million;
- the Company, a guarantor or a pledgor evidences its intent to repudiate its obligations under the Nomura Credit Facility, guarantee and collateral agreements;
- the Nafta Moskva Group, together with any one of the Founding Shareholders, controls less than 40% of the Ordinary Shares;
- material adverse change of financial condition, business or operations of the Company or of our group has occurred or is expected to occur.

We breached certain covenants of the Nomura Credit Facility in 2009 and 2010, including certain financial covenants established in the Nomura Credit Facility. We believe we have adequately dealt with breaches of certain non-payment defaults under the Nomura Credit Facility in 2009 and 2010, as well as breaches of certain financial covenants, by obtaining waivers from Nomura. In August 2010, we received a waiver of all events of default caused by such breaches that predated that waiver. However, the waiver predated and therefore did not cover our breach of certain financial covenants with respect to 2010. In addition, our subsequent defaults under the Sberbank Credit Facilities, the Rosbank Credit Facilities and our credit facility with

Absolut Bank, which has subsequently been repaid, triggered a cross-default under the Nomura Credit Facility. On September 22, 2011, we received a waiver of the existing defaults from Nomura. The waiver will become effective once we countersign it and incur certain expenses.

In addition, the bankruptcy claim filed against us in September 2011 constituted an event of default under the Nomura Credit Facility. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We have not received a waiver for defaults arising from the bankruptcy claim from Nomura and there is no assurance that we will receive it. Accordingly, Nomura is entitled to accelerate payment of the Nomura Credit Facility and foreclose on the assets pledged under it.

### **Security**

The loans are secured by the guarantee of PIK-Region and by the pledge of rights of PIK-Region under the investment contract with respect to the Sovkhoznaya 11 development project in the Moscow region.

### **USD 2.7 million, USD 3 million and USD 5.3 million Garanti Bank Term Credit Facilities**

On November 20, 2008, DSK-2 entered into a USD 2.7 million secured term credit facility agreement with Garanti Bank (as amended on May 19, 2009 and December 4, 2009). The loan was provided to finance our working capital needs. As of June 30, 2011, the outstanding amount was USD 2.4 million. The loan is repayable in seven quarterly installments starting from June 3, 2011 and has a final maturity date of December 3, 2012. The interest rate on this loan currently is 11% *per annum* payable quarterly. Unpaid interest accrued for the period ending December 5, 2009 was payable on June 3, 2011.

On November 21, 2008, DSK-2 entered into a USD 3 million secured term credit facility agreement with Garanti Bank (as amended on May 19, 2009 and December 4, 2009). The loan was provided to finance our working capital needs. As of June 30, 2011, the outstanding amount was USD 2.7 million. The loan is repayable in seven quarterly installments starting from June 3, 2011 and has a final maturity date of December 3, 2012. The interest rate on this loan currently is 11% *per annum* payable quarterly. Unpaid interest accrued for the period ending December 5, 2009 was payable on June 3, 2011.

On November 24, 2008, DSK-2 entered into a USD 5.3 million secured term credit facility agreement with Garanti Bank (as amended on May 19, 2009 and December 4, 2009). The loan was provided to finance our working capital needs. As of June 30, 2011, the outstanding amount was USD 4.8 million. The loan is repayable in seven quarterly installments starting from June 3, 2011 and has a final maturity date of December 3, 2012. The interest rate on this loan currently is 11% *per annum* payable quarterly. Unpaid interest accrued for the period ending December 5, 2009 was payable on June 3, 2011.

The terms and conditions of the Garanti Bank secured term credit facility agreements with DSK-2 (jointly, the “**Garanti Bank Credit Facilities**”) that are substantially the same are discussed below.

### **Major covenants and events of default**

The Garanti Bank Credit Facilities require DSK-2 to comply with certain covenants. In particular, DSK-2 is required to provide Garanti Bank with its audited (if prepared) or unaudited financial statements of DSK-2 prepared in accordance with RAS on a quarterly basis and notify Garanti Bank of any event that may adversely affect the ability of DSK-2 to repay the loans, including decrease of its net assets determined under RAS by more than 25%, loss of key property, plant and equipment, claims brought against DSK-2 in the amount exceeding 10% of the book value of its assets determined under RAS, defaults under the Garanti Bank Credit Facilities and other credit facilities. DSK-2 is also required to notify Garanti Bank of incurrence of any additional debt exceeding 10% of the book value of its assets and of occurrence of significant corporate events, including amendments to its organizational documents, election (appointment) of new officers and directors, opening of new bank accounts.

Our non-compliance with the covenants of the Garanti Bank Credit Facilities may constitute an event of default. In addition, other events specified in the Garanti Bank Credit Facilities also constitute events of default. These events, *inter alia*, include insolvency, voluntary or involuntary liquidation or transformation of DSK-2, any guarantor or pledgor; disposal of all or substantially all of the assets of DSK-2; its failure to carry out or suspension of the core business operations; revocation of material licenses; corporate or procedural decision to suspend payments to creditors of DSK-2; existence of unsatisfied claims to bank accounts of DSK-2; material adverse change in financial condition of DSK-2. In addition, occurrence of any of the following events constitutes an event of default under the Garanti Bank Credit Facilities: material payment default of DSK-2,

any pledgor or guarantor under any obligation, material court claims brought or material court judgment rendered against DSK-2, any pledgor or guarantor, foreclosure on any material property of DSK-2, any pledgor or guarantor. For the purposes of the Garanti Bank Credit Agreements, materiality is defined as the amount exceeding 20% of the book value of the assets of a company in question determined in accordance with RAS.

The Garanti Bank Credit Facilities entitle the lender to accelerate indebtedness owed to it if, *inter alia*, legal proceedings have been initiated to declare the Company bankrupt or the Company is held bankrupt by a court decision. The bankruptcy claim filed against us in September 2011 may have resulted in an event of default under the Garanti Bank Credit Facilities. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. We believe we have reasonable grounds to argue that no default occurred under the Garanti Bank Credit Facilities as a result of the bankruptcy claim. However, we cannot give any assurance that Garanti Bank would not prevail in court if it took a different position with respect to the interpretation of the relevant provisions in the Garanti Bank Credit Facilities.

### ***Security***

The loans are secured by guarantees of the Company and PIK-Region; by pledges of shares (participation interests) in 160 KGI as well as by a mortgage over the land plot in the Rostov region intended for future development.

### **RUB 350 million Bank Zenit Term Credit Facility**

On May 19, 2011, we entered into a RUB 350 million secured term revolving credit line agreement with Bank Zenit. The loan was provided to finance our working capital needs. As of June 30, 2011, the loan was fully drawn. The credit facility is provided in several tranches at the request of the Company, each tranche is provided for a term of up to 365 calendar days. The loan has a final maturity date of May 24, 2013. The interest rate on this loan is equal to the sum of 4% and the refinancing rate established by the CBR *per annum* payable monthly.

The terms and conditions of the Bank Zenit secured term revolving credit line agreement (the “**Bank Zenit Credit Facility**”) are discussed below.

### ***Major covenants and events of default***

The Bank Zenit Credit Facility requires that we inform Bank Zenit of occurrence of any event which may adversely affect the ability of the Company to repay the loan and the measures taken to ensure our compliance with the Bank Zenit Credit Facility. We are also required to send a prior notification to the bank regarding the planned merger or other corporate reorganization of the Company.

Our non-compliance with the provisions of the Bank Zenit Credit Facility may constitute an event of default. In addition, certain other events also constitute events of default under the Bank Zenit Credit Facility. These events include, *inter alia*, any payment default of the Company under any credit facility with Bank Zenit, any default of the Company with respect to any obligation in the amount exceeding RUB 100 million, insolvency of the Company, material adverse change of financial condition or operations of the Company, existence of any events that could adversely affect the financial position and credit status of the Company, revocation of material licenses of the Company as well as a court claim brought against the Company for the amount exceeding RUB 100 million.

We believe that we are in compliance with the covenants of the Bank Zenit Credit Facility.

### ***Security***

The loan is secured by the guarantees of PIK-Region and LLC Semigor as well as by a mortgage over the land plot owned by LLC Semigor and intended for future development in the town of Novorossiysk in the Krasnodar region.

### **RUB 1,200 million Bank of Khanty-Mansiysk Term Credit Facility**

On September 12, 2011, we entered into a RUB 1,200 million secured term credit facility agreement with Bank of Khanty-Mansiysk. The loan was provided to refinance a credit facility provided by Absolut Bank to our subsidiary Stroybusinesscenter. As of September 12, 2011, the loan was fully drawn. The loan is repayable in twelve installments starting from October 12, 2013 and has a final maturity date of September 12, 2014. The interest rate on this loan is 11.8% *per annum* payable monthly.



The terms and conditions of the Bank of Khanty-Mansiysk secured term credit agreement (the “**Bank of Khanty-Mansiysk Credit Facility**”) are discussed below.

### ***Major covenants and events of default***

The Bank of Khanty-Mansiysk Credit Facility requires us to comply with certain affirmative and negative covenants. In particular, the Company is not allowed to create any encumbrance over, or dispose of, its property, both existing and purchased in the future, exceeding 20% of the book value of the assets of the Company without prior written consent of the bank. In addition, we are required to insure the pledged assets with an insurance company agreed upon with the Bank of Khanty-Mansiysk, provide the Bank of Khanty-Mansiysk with our financial statements and other financial reporting data prepared in accordance with RAS on a quarterly basis; and notify the Bank of Khanty-Mansiysk of any borrowings made by the Company; guarantees given by the Company or pledges of property, in each case in the aggregate amount exceeding RUB 300 million, as well as provide the Bank of Khanty-Mansiysk with other information and documentation specified in the Bank of Khanty-Mansiysk Credit Facility.

Our non-compliance with the covenants of the Bank of Khanty-Mansiysk Credit Facility may constitute an event of default. In addition, other events specified in the Bank of Khanty-Mansiysk Credit Facility also constitute events of default. Other events include, *inter alia*, any default of the Company, any pledgor or guarantor under the Bank of Khanty-Mansiysk Credit Facility under any credit facilities or other agreements with the Bank of Khanty-Mansiysk; insolvency, liquidation, reorganization of the Company, pledgor or guarantor, any court claims brought against the Company, any pledgor or guarantor in the amount exceeding 20% of the book value of their assets; or a material adverse change in the financial condition of the Company resulting in a decrease of its net assets by more than 25% determined under RAS.

The Bank of Khanty-Mansiysk Credit Facility entitles the lender to accelerate indebtedness owed to it if, *inter alia*, legal proceedings have been initiated to declare the Company bankrupt or the Company has been adjudged to be insolvent due to its inability to pay by an arbitrazh court. We believe we have reasonable grounds to argue that no default occurred under our RUB 1,200 million term credit facility with the Bank of Khanty-Mansiysk Credit Facility as a result of the bankruptcy claim filed against us in September 2011. See “*Risk Factors—Our financing arrangements contain restrictive provisions, failure to comply with which may adversely affect us*”. To mitigate the risk that the Bank of Khanty-Mansiysk takes a different position with respect to the interpretation of the relevant provisions in the Bank of Khanty-Mansiysk Facility, we obtained a letter from it indicating that the bank had no intent to demand immediate repayment of the debt based on any potential defaults arising from the bankruptcy claim. However, we cannot give any assurance that the Bank of Khanty-Mansiysk will not change the intention expressed in this letter or would not prevail in court if it brought a legal action against us demanding immediate repayment of the debt notwithstanding its letter as this letter is not legally binding in Russia.

### ***Security***

The loan is secured by a guarantee of Stroybusinesscenter as well as by a mortgage over non-residential premises and a 99% interest in non-residential premises owned by Stroybusinesscenter and located in Moscow.

### **Other Agreements**

#### ***Lease agreement relating to the Novokurkino development, Khimki, Moscow region***

On August 13, 2001, Novokurkino, our wholly-owned subsidiary, and the Administration of the Khimki District of the Moscow region entered into a long-term land lease agreement with respect to the land plot underlying the development. See also “*Business—Real Estate Development Segment—Development Projects—Description of Our Key Development Projects—Novokurkino—Khimki, Moscow region.*”

The agreement provides for our undertaking to develop the residential micro districts 6, 7, 8, with a total area of approximately 900 thousand square meters, a kindergarten and school in accordance with the master planning scheme. Under the agreement, we undertook to make annual rental payments to the Administration of the Khimki District of the Moscow region for approximately RUB 51,444 million. As of June 30, 2011, the total amount of outstanding payments was approximately RUB 45,482 million.

The project is expected to be completed in 2015.

The lease agreement expires in January 2052.

The Khimki District has a right to unilaterally terminate the agreement if we breach our main obligations under the lease agreement.

***Investment contract related to the Novokurkino development, Khimki, Moscow region***

On May 15, 2003, Novokurkino, the Administration of the Khimki District of the Moscow region and the Construction Ministry of the Moscow region and the Ministry of Property Relations of the Moscow region entered into an investment contract with respect to the development.

According to the investment contract, 100% of the apartments and non-residential premises of the development are allocated to Novokurkino, because Novokurkino satisfied its duty to allocate 6,200 square meters of non-residential premises to the Administration of the Moscow region by assignment of its interest in another development project.

The investment contract required the construction to be completed by the end of 2008. We have initiated the negotiations with the Moscow region authorities to revise the provisions of the investment contract to reflect the changes in the master planning scheme of the development and extend the completion date. We believe that technical expiration of the investment contract will not have a material adverse effect on our business, financial condition and results of operations, because the lease agreement for the land plot underlying the development may not be terminated as a result of termination of the investment contract.

The contract may be terminated by mutual consent of both parties.

See also “*Business — Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Novokurkino – Khimki, Moscow region.*”

***Lease agreements related to the Yaroslavsky development, Mytishi, Moscow region***

On May 2010, Zagorodnaya usadba, our subsidiary, and the Mytishi Municipal District of the Moscow region entered into 19 long-term land lease agreements with respect to the land plots underlying the Yaroslavsky development. See also “*Business — Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Yaroslavsky – Mytishi, Moscow region.*”

The lease agreements provide for our undertaking to develop the complex of residential buildings with social infrastructure facilities with a total area of approximately 1,150,000 square meters (excluding parking and social objects). The agreements entered into with respect to the land plots with a total area of 74,35 hectares in micro district 15 and 16. Under the agreements, we undertook to make annual rental payments to the Mytishi Municipal District of the Moscow region for approximately RUB 31 million. As of the June 30, 2011, the total amount of outstanding payment and interest was approximately RUB 30 million.

The lease agreements will expire in 2059.

Upon the performance of our development obligation, the land plot will be leased to us for a term of 49 years.

The Mytishi Municipal District of the Moscow region has a right to terminate the agreement on the grounds set forth by the Russian legislation.

Eurosystems had a freehold title to a land plot with a total area of 27 hectares comprising a part of micro district 16. On April 21, 2011, Eurosystems and Zagorodnaya Usadba entered into a short-term lease agreement with respect to this land plot. Stroyzhilinvest 16 had a freehold title to a land plot with a total area of approximately 12.9 hectares comprising another part of micro district 16. On October 1, 2010, Stroyzhilinvest 16 and Zagorodnaya Usadba entered into a short-term lease agreement with respect to this land plot.

***Investment contracts related to the Yaroslavsky development, Mytishi, Moscow region***

On March 30, 2005, Zagorodnaya Usadba, the Construction Complex Ministry of the Moscow region and the Administration of the Mytishi District of the Moscow region entered into an investment contract for the construction of a residential complex in micro district 15.

On April 30, 2004 Tverdinya, the Construction Ministry for the Moscow region and the Administration of the Mytischki region entered into an investment contract for the construction of buildings on a part of micro district 16 with a total area of 27 hectares, owned by Eurosystems.

Under the relevant investment contracts, 97% of the apartments, total non-residential premises and parking spaces in the Yaroslavsky development are to be distributed to Zagorodnaya Usadba and Tverdinya. The local administration of Mytischki will be allocated the remaining 3% of the apartments, total non-residential premises and parking spaces to be constructed as well as all objects of social infrastructure, engineering systems and transport infrastructure. In addition, pursuant to the terms of the respective investment contracts, Zagorodnaya Usadba and Tverdinya agreed to contribute RUB 45.3 million and RUB 17.0, respectively, to finance the construction of engineering systems for the project by the local administration.

The contracts may be terminated by mutual consent of both parties.

See also “*Business — Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Yaroslavsky — Mytischki, Moscow region.*”

#### ***Lease agreement related to the Marshala Zakharova 7 development, Moscow***

On February 28, 2003, the Moscow Land Committee and Veistoun, our wholly-own subsidiary, entered into a long-term land lease agreement with respect to the land plot with a total area of 1.7 hectare. In May 2007, the Moscow Land Committee and Veistoun entered into an amendment to the land lease agreement in order to change the permitted use of the land plot and allow for construction of the housing complex. See also “*Business — Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Marshala Zakharova 7 - Moscow.*”

The agreement provides for our undertaking to develop a multifunctional residential complex on a land plot, located in the Orekhovo-Borisovo District in the south of Moscow, in close proximity to Kashirskoye Highway and Borisovkiy Pond. Under the agreement, we undertook to make rental payments to the Moscow Land Committee of approximately RUB 2.4 million per annum.

The lease agreement (as amended) will expire in January 2052.

The Moscow Land Committee has a right to terminate the agreement if we fail to pay rent and interest within two quarters in succession, breach of proper use of the land plot or placement the building without consent of lessor.

#### ***Investment and co-investment contracts related to the Marshala Zakharova 7 development, Moscow***

On December 4, 2006, the Moscow Government and Veistoun, our wholly owned subsidiary, entered into an investment contract relating to the development of the project located at Marshala Zakharova Street 7 for a development site situated on several land plots with the total area of 4.79 hectares, one of which is a long-termed leased land plot of 1.7 hectares.

Pursuant to the investment contract, Veistoun agreed to perform the construction of the development and was allocated 100% of the apartments and non-residential premises and 100% of parking spaces. In exchange for the development rights, Veistoun agreed to contribute USD 51 million toward the city’s social, engineering and transportation infrastructure in 2006 – 2009. Pursuant to the investment contract, Veistoun committed to complete the construction on the development site by December 31, 2009. The investment contract expired in April 2010. Veistoun is currently negotiating an amendment to the investment contract that would provide for an extension of the term of the contract and postponement of the completion date, which we expect to be granted, as the delay was largely caused by the investigation of the Moscow Government. Currently Veistoun has filed a claim with the Moscow Arbitration Court against the Moscow Government seeking to prolong the investment contract and to provide us lease rights to the relevant land plots in accordance with such investment contract.

The contract may be terminated by mutual consent of both parties and through judicial proceeding.

On April 28, 2007, Veistoun entered into a co-investment contract with the Company (as amended on July 2, 2007). Pursuant to the co-investment contract, we contributed RUB 609 million to the development project upon the execution of the contract and agreed to finance all the development costs. We have been allocated 100% of the apartments and non-residential premises and 100% of the parking spaces in the development.

The contract may be terminated by the parties on the grounds set forth by the Russian legislation.

See also “*Business —Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Marshala Zakharova 7 - Moscow.*”

***State investment contracts related to a development project in Lyubertsy, Moscow region***

In December 2010, PIK-Region, our wholly-owned subsidiary, and the Federal Security Service of Russia entered into three state investment contracts relating to a residential development in Lyubertsy, Moscow region.

Under the state investment contracts (as amended), we undertook to construct the residential complex in Lubertsy, micro district 7-8, block 8-a, buildings 16 and 20 with a total area of 7,000square meters. The aggregate consideration payable by us under the contracts is approximately RUB 373 million. The consideration may be adjusted, if the total residential area in the completed buildings is changed in the course of construction. As of the June 30, 2011, the total amount outstanding was approximately RUB 75 million.

The construction was expected to be completed by the end of 2011.

The agreements may be terminated by the parties on the grounds set forth by the Russian legislation.

***State contracts related to a development projects at Zapovednaya Street, Lukinskaya Street, pr-t Budennogo and Krasnogo Mayaka Street, Moscow***

On June 2010, we and the Administration of Capital Construction of Ministry of the Russian Federation for Civil Defence, Emergency Management and Natural Disasters Response entered into state contracts regarding the purchase of the apartments.

Under these contracts we sold to the Administration of capital construction of Ministry of the Russian Federation for Civil Defense, Emergency Management and Natural Disasters Response 154 apartments with a total residential area of approximately 9,811 square meters located at Zapovednaya Street, Lukinskaya Street, pr-t Budennogo and Krasnogo Mayaka Street, Moscow. Under these contracts, we are obligated to transfer apartments, located in constructed buildings. The consideration payable to us under the contracts is RUB 1,034 million. As of the June 30, 2011, the total amount outstanding was approximately RUB 51.3 million.

The transfer of the apartments was completed in July 2011.

The contracts may be terminated by mutual consent of both parties.

***Investment and co-investment contracts related to the Kuntsevo development, Moscow***

On June 20, 1996, Kuntsevo-Invest and the local administration of the Western Administrative District of the city of Moscow (later substituted for the Moscow Government) entered into an investment contract (which was amended and restated on August 2, 2006) for the reconstruction of Kuntsevo blocks 18, 47 and 48. On May 26, 1999, Kuntsevo-Invest and the local administration of the Western Administrative District of the city of Moscow entered into an investment contract for the reconstruction of Kuntsevo blocks 7, 20, 45, 46 and Rublevo village.

On July 16, 2007, Monetchik, our wholly owned subsidiary, entered into a co-investment contract with Kuntsevo-Invest concerning the joint financing of the reconstruction of residential blocks 7, 18, 20, 45-48 and the Rublevo village of the Kuntsevo region. Pursuant to the co-investment contract, Monetchik contributed RUB 242 million to the development project upon the execution of the contract and to share the costs of development, including the costs of construction of municipal housing.

Under this contract, Monetchik was allocated 161,329 square meters of the apartments (including the building at 107 Rublevskoe Highway), 60% of commercial premises (half of which shall be allotted to the municipal authorities) and 90% parking spaces (half of which shall be allotted to the municipal authorities) in the development, including municipal buildings. On September 3, 2009, Monetchik entered into a co-investment contract with the Company, which agreed to finance development of the project.

The Moscow Government has a right to terminate the contract if we delay the term of construction. Also we may terminate the contract through the judicial proceeding if the Moscow Government breaches the main obligations.

On January 20, 2010, Monetchik entered into a co-investment contract with Mospromstroy, an entity not affiliated with us, on joint financing of the construction of the building at 107 Rublevskoe Highway.

Pursuant to the co-investment contract, Mospromstroy committed to contribute approximately RUB 2,833 million to the construction on the development site upon the execution of the contract and was allocated 78.1% of the apartments, 50% of commercial premises and 78% of the parking spaces. Monetchik retained a share of 21.9% of the total area of the apartments, 10% of non-residential premises and 12% of the parking spaces, considering the figures of the whole project.

The contract may be terminated by the parties on the grounds set forth by the Russian legislation.

See also “*Business —Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Kuntsevo - Moscow.*”

***Investment and co-investment contracts related to the Akademika Vinogradova development, possession 7, Moscow***

On August 6, 2003, the Moscow Government and Polikvart entered into an investment contract relating to the development of several properties, including the property at Akademika Vinogradova Street, possession 7. On October 16, 2006, Polikvart agreed to assign to the Company its development rights under the investment contract with respect to the Akademika Vinogradova Street development. On October 26, 2006, the investment contract was amended and the Company became a party to the contract.

Pursuant to the investment contract, we committed to complete the development of the Akademika Vinogradova Street property by the end of 2008. However, in December 2008, the Moscow Government by its order extended the completion date to the end of 2011. In addition, we agreed to construct several objects of social infrastructure, including a children center and a fitness and health improvement complex. Upon completion of construction, we will be allocated 100% of the apartments, 60% of the commercial premises (with a right of first refusal in respect of the 40% share of the Moscow city) and 80% of the parking spaces in the development.

The contract may be terminated by mutual consent of both parties and through judicial proceeding.

On November 20, 2009, the Company entered into co-investment contract with Mospromstroy, an entity not affiliated with us, on joint financing of construction of two residential buildings located on the development site. Pursuant to the co-investment contract, Mospromstroy agreed to finance a part of construction costs in the amount of approximately RUB 3,164 million (subject to adjustment as set forth in the contract) and was allocated a total net sellable area of approximately 61% of the apartments, 50% of commercial premises and 61% of parking spaces in these two buildings.

The co-investment contract may be terminated by Mospromstroy if we fail to enter into general contractor agreement or it is terminated early.

See also “*Business —Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — Akademika Vinogradova, possession 7- Moscow.*”

***Investment and co-investment contracts related to the South Chertanovo development, micro districts 17-18, Moscow***

On December 26, 2007, AMA and the Moscow Government entered into an investment contract relating to the South Chertanovo development.

Under the investment contract, the AMA agreed to organize a tender to select an investor that would carry out construction works on the development site at its own expense and would be allocated a portion of the AMA’s share of the apartments, non-residential premises and parking spaces in the development. Investor’s participation in the development project was conditioned upon investor’s commitment to complete construction in progress (one unfinished building located on the development site), which had been started by other developers that went bankrupt, to deliver the apartments to private investors. Upon completion of construction works, 60% of the non-residential premises will be allocated to the AMA and the participating investor. Pursuant to the contract, the city of Moscow had an option either to retain 15% of land comprising the

development site for construction of social housing at its own expense or to invest in construction of 15% of the apartments in the buildings constructed by the investor. The city of Moscow has elected to retain 15% of land comprising the development site. As a result, the AMA and participating investors have been allocated 100% of the apartments in the development.

The contract may be terminated by mutual consent of both parties and through judicial proceeding.

We won a tender organized by the AMA and were selected to act as an investor responsible for development of the property. On April 11, 2008, we entered into an agreement with the AMA on assignment of the AMA's development rights to us. We agreed to perform the construction on the development site (including completion of the construction in progress, as set forth in the investment contract). We were allocated 76.85% of the AMA's share of the apartments, 60% of the commercial premises and 100% of the AMA's share of the parking spaces in the development. The agreement also provides for a possibility of delivery of the apartments in other properties developed by us to the AMA in lieu of allocation of a portion of the apartments in the South Chertanovo development.

The contract may be terminated by the parties on the grounds set forth by the Russian legislation.

See also "*Business — Real Estate Development Segment — Development Projects — Description of Our Key Development Projects — South Chertanovo, micro districts 17-18 — Moscow.*"

***Investment contract related to the Star of Russia development, 4-8, Khimky, Moscow region***

On July 6, 2006, the Ministry of construction complex of Moscow region, the Administration of urban district Khimky, PIK-Region, our wholly-owned subsidiary, co-investors-individuals and LLC Giza XXI vek entered into an investment contract relating to the Star of Russia, 4-8, Khimky.

Under the investment contract we committed to complete the development of the Star of Russia, 4-8, Khimky with total area 127,834 square meters. In addition, we agreed to discharge the social obligation and to construct five residential buildings with total area 104,540 square meters. Upon completion of construction, we will be allocated 100% of the apartments and non-residential premises in newly investing building. Also we will be allocated a part of the apartments and non-residential premises in social buildings. As of June 30, 2011, CBRE assessed the Market Value of our interest in the Star of Russia, 4-8 development at USD 69,200,000 million (RUB 1.9 billion).

The investment contract, as amended, required the construction to be completed by the second half of 2016.

The contract may be terminated by mutual consent of both parties and on the grounds set forth by the Russian legislation.

***Investment contract related to the Makhalina Street development, buildings 3, 4, 8, 13 and 15, Dmitrov, Moscow region***

On August 28, 2003, the Construction Ministry of the Moscow region, the Administration of Dmitrov district and CJSC Stroymetresurs entered into an investment contract relating to the Makhalova Street, Dmitrov. In March 28, 2005, CJSC Stroymetresurs agreed to assign to the Company its development rights under the investment contract with respect to the Makhalova Street development, the investment contract was amended and PIK-Region, our wholly-own subsidiary, became a party to the contract.

Under the investment contract (as amended), we committed to construct the residential complex with commercial center, school and kindergarten on the Makhalova Street development with total area 256,000 square meters. Pursuant to the investment contract (as amended), PIK-Region initially committed to contribute 50% to the development of social infrastructure objects. PIK-Region and co-investors agreed to contribute RUB 2,422 million toward the construction. Upon completion of construction, we will be allocated 9.5% of the apartments in building 8; 9% of the apartments in building 13; 7% of the apartments in building 15.

The investment contract required the construction to be completed by the first half of 2013.

The contract may be terminated by mutual consent of both parties, failure to start the construction during six month since the registration of investment contract.

***Investment contract related to the Moskovskaya Street, buildings 1, 2, 3, Dmitrov, Moscow region***

On October 20, 2003, the Construction Ministry of the Moscow region, the Administration of Dmitrov district and CJSC Stroymetresurs entered into an investment contract relating to the Moskovskaya Street, Dmitrov. In July 30, 2004, CJSC Stroymetresurs agreed to assign to the Company its development rights under the investment contract with respect to the Moskovskaya Street development, the investment contract was amended and PIK-Region (previous Zhilstroyindustriya), our wholly-own subsidiary, became a party to the contract.

Under the investment contract (as amended), we committed to construct the residential complex with commercial center on the Moskovskaya Street development with total residential area 24,000 square meters. PIK-Region and co-investors agreed to contribute approximately RUB 900 million toward the construction. Upon completion of construction, we will be allocated 96.25% of the apartments in residential complex. As of June 30, 2011, the total amount outstanding payment and interest was approximately RUB 600 million.

The investment contract required the construction to be completed by 2014.

The contract may be terminated by mutual consent of both parties, failure to start the construction during six month since the registration of investment contract.

***Investment contract related to the Dzerzhinskogo Street development, Novorossiysk***

On April 24, 2004, Administration of Novorossiysk and SIR-NN, our wholly-owned subsidiary, entered into an investment contract relating to the Dzerzhinskogo Street project, Novorossiysk.

In accordance with the supplementary agreement, dated February 5, 2009 the LLC Kubanzhilstroy, which is not affiliated with us, became a party of the contract as co-investor. Also under this supplementary agreement PIK-Region, our wholly-owned subsidiary, became a party of the contract instead of SIR-NN as a successor.

Under the investment contract (as amended), we committed to construct the residential complex on the micro district 15, Dzerzhinskogo street development with total area 150,000 square meters. PIK-Region agreed to finance 100% of construction works, excluded construction works of the buildings 3, 7, 8, 11, 12, 13, 14, 20.

The investment agreement required the construction to be completed by 2012.

The contract may be terminated by mutual consent of both parties and through judicial proceeding.

## GENERAL INFORMATION

- Our Ordinary Shares have been admitted to list “A – level 1” of MICEX and to list “B” of RTS, in each case under the symbol “PIKK”.
- The Company is an open joint stock company organized under the laws of the Russian Federation with the main state registration number 1027739137084.
- Our registered address is 19 Barrikadnaya Street, building 1, Moscow, 123242, the Russian Federation.
- The following table sets forth the principal activity, registered office, and our ownership of each of our significant subsidiaries:

Company Name	Principal Activity	Registered Office	Effective ownership as of the date of this Information Memorandum
PIK-Region	Real estate development	4, Professionalnaya Street, Dmitrov, Moscow region, Russia 141800	100.0
MFS-PIK	General contractor	22A, bld. 2, Ryabinovaya Street, Moscow, Russia 12147	100.0
DSK-2	General contractor, industrial production	1, Stroykombinata Proezd, Moscow, Russia 119530	98.0
DSK-3	General contractor, industrial production	2, bld. 1, Borovskoe Avenue, Moscow, Russia 119618	87.0
Viniso Investments Limited	Construction management	Gr. Xenopoulou, 17 P.C. 3106, Limassol, Cyprus	75.0
100 KGI	General contractor, industrial production	12, Production Zone, Skoropuskovsky Village, Moscow region, Russia 141363	92.0
480 KGI	General contractor, industrial production	5, Parkovaya Street, Aleksin, Tula region, Russia 301364	100.0

- In 2009, Lacero Trading Ltd. entered into a share purchase agreement with Maritrade Investments Ltd. and Forienst Investments Ltd., entities controlled by our Founding Shareholders, pursuant to which Lacero Trading Ltd. acquired 123,315,096 Ordinary Shares, representing 25% of our share capital.
- On May 29, 2009, Lacero Trading Ltd. entered into separate agreements on similar terms with Maritrade Investments Ltd. and Forienst Investments Ltd., pursuant to which each of Maritrade Investments Ltd. and Forienst Investments Ltd. were provided with the right of first refusal with respect to the Ordinary Shares acquired by Lacero Trading Ltd. (the “**RoFR Shares**”) except for transfers to affiliates of Lacero Trading Ltd.
- Under these agreements, Maritrade Investments Ltd. and Forienst Investments Ltd. are entitled to exercise their rights of first refusal if Lacero Trading Ltd. receives an offer with respect to any of the RoFR Shares from a third party (other than affiliates of Lacero Trading Ltd.) or decides to sell any of the RoFR Shares in an open market transaction. If both Maritrade Investments Ltd. and Forienst Investments Ltd. decide to exercise their rights of first refusal with respect to the RoFR Shares offered for sale by Lacero Trading Ltd., each of them by default is entitled to purchase 50% of such RoFR Shares, unless Maritrade Investments Ltd. and Forienst Investments Ltd. agree on a different ratio.
- The rights of first refusal granted to Maritrade Investments Ltd. and Forienst Investments Ltd. are of indefinite duration.
- In 2009, Holborner Services Ltd. entered into share purchase agreements with Maritrade Investments Ltd. and Forienst Investments Ltd., pursuant to which Holborner Services Ltd. acquired 53,188,262 Ordinary Shares and 45,463,814 GDRs, representing 20% of our share capital. Ordinary Shares and GDRs acquired and currently held by Holborner Services Ltd. are subject to a call option in favor of Maritrade Investments Ltd. and Forienst Investments Ltd., as described in more detail below.



- On May 29, 2009, Holborner Services Ltd. signed separate call option agreements on similar terms with Maritrade Investments Ltd. and Forienst Investments Ltd., pursuant to which Maritrade Investments Ltd. was granted a call option with respect to 27,168,520 Ordinary Shares and 30,613,683 GDRs, representing 11.71% of our share capital (the “**Maritrade Option Securities**”), and Forienst Investments Ltd. was granted a call option with respect to 26,019,742 Ordinary Shares and 14,850,131 GDRs, representing 8.29% of our share capital (the “**Forienst Option Securities**”).
- The call options granted to Maritrade Investments Ltd. and Forienst Investments Ltd. may be exercised during the period from March 16, 2012 through March 16, 2014.

**ANNEX A**

**Audited Consolidated Financial Statements**

**OAQ Group of Companies PIK  
Consolidated Financial Statements  
for the year ended  
31 December 2010**

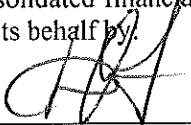
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## Consolidated Statements of Financial Position

In million RUB	Note	2010	2009 (restated)	2008 (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	17	9,452	10,390	12,840
Intangible assets	18	22,844	22,072	27,455
Investments in equity accounted investees	19	-	3,460	3,522
Other investments	21	2	997	169
Deferred tax assets	22	334	86	71
<b>Total non-current assets</b>		<b>32,632</b>	<b>37,005</b>	<b>44,057</b>
<b>Current assets</b>				
Inventories	23	67,634	63,379	73,218
Other investments	21	778	872	4,223
Income tax receivable		87	87	519
Trade and other receivables	24	11,877	10,598	14,124
Cash and cash equivalents		4,350	3,417	3,153
Assets held for sale	6	4,803	-	-
<b>Total current assets</b>		<b>89,529</b>	<b>78,353</b>	<b>95,237</b>
<b>Total assets</b>		<b>122,161</b>	<b>115,358</b>	<b>139,294</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	25	30,843	30,843	30,843
Additional paid-in capital		20,082	20,082	20,082
Treasury shares		-	-	(2,428)
Reserve resulting from additional share issue		(28,506)	(28,506)	(28,506)
Retained earnings		(24,759)	(18,631)	(5,102)
<b>Total equity attributable to equity holders of the Company</b>		<b>(2,340)</b>	<b>3,788</b>	<b>14,889</b>
Non-controlling interest		345	555	978
<b>Total equity</b>		<b>(1,995)</b>	<b>4,343</b>	<b>15,867</b>
<b>Non-current liabilities</b>				
Loans and borrowings	26	4,916	6,277	8,393
Trade and other payables	27	20	1,128	1,527
Provisions		-	-	46
Deferred tax liabilities	22	2,093	4,795	5,072
<b>Total non-current liabilities</b>		<b>7,029</b>	<b>12,200</b>	<b>15,038</b>
<b>Current liabilities</b>				
Loans and borrowings	26	39,062	32,013	31,742
Trade and other payables	27	53,451	51,415	64,243
Provisions	28	21,360	14,135	12,278
Income tax payable		423	1,252	126
Liabilities related to assets held for sale	6	2,831	-	-
<b>Total current liabilities</b>		<b>117,127</b>	<b>98,815</b>	<b>108,389</b>
<b>Total liabilities</b>		<b>124,156</b>	<b>111,015</b>	<b>123,427</b>
<b>Total equity and liabilities</b>		<b>122,161</b>	<b>115,358</b>	<b>139,294</b>

These consolidated financial statements were approved by Management on 4 May 2011 and were signed on its behalf by:

  
 Fedor B. Sapronov  
 Vice-President, Law

  
 Andrey M. Rodionov  
 Vice-President, Economics and Finance

## Consolidated Statements of Comprehensive Income

In million RUB	Note	<b>2010</b>	<b>2009</b> <b>(restated)</b>	<b>2008</b> <b>(restated)</b>
<b>Revenue</b>	8	38,090	41,175	33,695
Cost of sales	9	(35,598)	(33,218)	(25,271)
<b>Gross profit</b>		<b>2,492</b>	<b>7,957</b>	<b>8,424</b>
Gain/(loss) on disposal of subsidiaries and development rights, net	11	368	(1,272)	-
Distribution expenses	12	(488)	(477)	(974)
Administrative expenses	13	(3,372)	(3,890)	(5,540)
Impairment losses and reversal of impairment loss	20	(1,106)	(4,671)	(24,028)
Other income and expenses, net	15	(373)	(391)	(300)
Finance income	14	325	771	481
Finance costs	14	(5,930)	(9,801)	(8,379)
Share of loss of equity accounted investees, net of income tax		(52)	(41)	(75)
<b>Loss before income tax</b>		<b>(8,136)</b>	<b>(11,815)</b>	<b>(30,391)</b>
Income tax benefit/(expense)	16	2,051	(866)	1,343
<b>Loss from continuing operations</b>		<b>(6,085)</b>	<b>(12,681)</b>	<b>(29,048)</b>
Profit from discontinued operations, net of tax	6	-	1,193	85
<b>Loss and total comprehensive income for the year</b>		<b>(6,085)</b>	<b>(11,488)</b>	<b>(28,963)</b>
<i>Attributable to:</i>				
Owners of the Company		(6,128)	(11,115)	(28,743)
Non-controlling interest		43	(373)	(220)
<b>Total comprehensive loss for the year</b>		<b>(6,085)</b>	<b>(11,488)</b>	<b>(28,963)</b>
Basic and diluted loss per share		(12.42) RUB	(22.6) RUB	(58.6) RUB
<b>Continuing operations</b>				
Basic and diluted loss per share		(12.16) RUB	(25.1) RUB	(58.8) RUB

## Consolidated Statements of Changes in Equity

In million RUB	Attributable to equity holders of the Company					Subtotal	Non-	Total
	Share capital	Additional paid-in-capital	Reserve resulting from additional share issue	Treasury shares	Retained earnings		controlling interest	equity
<b>At 1 January 2008, as previously reported</b>	<b>30,843</b>	<b>19,401</b>	<b>(28,506)</b>	-	<b>27,335</b>	<b>49,073</b>	<b>1,266</b>	<b>50,339</b>
Adjustments 2(g)(ii)	-	-	-	-	<b>(3,309)</b>	<b>(3,309)</b>	-	<b>(3,309)</b>
<b>At 1 January 2008 (restated)</b>	<b>30,843</b>	<b>19,401</b>	<b>(28,506)</b>	-	<b>24,026</b>	<b>45,764</b>	<b>1,266</b>	<b>47,030</b>
Loss and total comprehensive income for the year, restated	-	-	-	-	(28,743)	(28,743)	(220)	(28,963)
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Transactions with shareholders, recorded directly in equity								
25(d)(i) and 25(d)(ii)	-	681	-	-	(385)	296	-	296
Own shares acquired	-	-	-	(2,428)	-	(2,428)	-	(2,428)
	-	681	-	(2,428)	(385)	(2,132)	-	(2,132)
<i>Changes in ownership interests in subsidiaries that do not result in a loss of control</i>								
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	(89)	(89)
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	-	21	21
	-	-	-	-	-	-	(68)	(68)
Total transactions with owners	-	681	-	(2,428)	(385)	(2,132)	(68)	(2,200)
<b>At 31 December 2008 (restated)</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	<b>(2,428)</b>	<b>(5,102)</b>	<b>14,889</b>	<b>978</b>	<b>15,867</b>
Loss and total comprehensive loss for the year	-	-	-	-	(11,115)	(11,115)	(373)	(11,488)
Own shares sold 25(b)	-	-	-	2,428	(2,204)	224	-	224
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Transactions with shareholders, recorded directly in equity	-	-	-	-	(210)	(210)	-	(210)
<i>Changes in ownership interests in subsidiaries that do not result in a loss of control</i>								
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	(61)	(61)
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	-	11	11
Total transactions with owners	-	-	-	-	(210)	(210)	(50)	(260)
<b>At 31 December 2009 (restated)</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	-	<b>(18,631)</b>	<b>3,788</b>	<b>555</b>	<b>4,343</b>
Loss and total comprehensive loss for the year	-	-	-	-	(6,128)	(6,128)	43	(6,085)
Change in non-controlling interest related to disposed subsidiary	-	-	-	-	-	-	(248)	(248)
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	-	(5)	(5)
Total transactions with owners	-	-	-	-	-	-	(253)	(253)
<b>At 31 December 2010</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	-	<b>(24,759)</b>	<b>(2,340)</b>	<b>345</b>	<b>(1,995)</b>

## Consolidated Statements of Cash Flows

In million RUB	2010	2009 (restated)	2008 (restated)
<b>OPERATING ACTIVITIES</b>			
<b>Loss for the year</b>	<b>(6,085)</b>	<b>(11,488)</b>	<b>(28,963)</b>
<i>Adjustments for:</i>			
Depreciation and amortisation	759	860	1,076
Impairment losses and reversal of impairment losses, net	1,106	4,671	24,028
Gain on termination of long-term leases	(2,032)	-	-
Foreign exchange loss, net	96	642	2,941
(Gain)/loss on disposal of property, plant and equipment	(6)	(16)	80
Impairment loss on financial assets and provision for doubtful accounts	595	2,147	2,674
Gain from disposal of development rights and subsidiaries	(368)	(43)	-
Share of loss of equity accounted investees	52	41	75
Interest expense, including penalties payable	5,239	7,012	2,749
Interest income	(325)	(400)	(481)
Income tax (benefit)/ expense	(2,051)	866	(1,343)
<b>Cash (used in) / from operating activities before changes in working capital and provisions</b>	<b>(3,020)</b>	<b>4,292</b>	<b>2,836</b>
(Increase) /decrease in inventories	(5,107)	6,678	(27,192)
(Increase) /decrease in trade and other receivables	(685)	1,519	2,254
Increase /(decrease) in trade and other payables	3,076	(9,241)	31,179
Increase in provision for cost to complete	6,096	2,142	3,630
<b>Cash flows from operations before income taxes and interest paid</b>	<b>360</b>	<b>5,390</b>	<b>12,707</b>
Income taxes paid	(1,099)	(218)	(925)
Interest paid	(4,077)	(3,984)	(3,611)
<b>Net cash (used in)/from operating activities</b>	<b>(4,816)</b>	<b>1,188</b>	<b>8,171</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment	136	26	522
Acquisition of other investments	-	-	(40)
Interest received	14	22	331
Acquisition of property, plant and equipment	(299)	(267)	(3,650)
Acquisition of development rights and other intangible assets	-	(223)	(17,657)
Acquisition of equity accounted investees	-	(2,208)	-
Loans given	(28)	-	(3,084)
Proceeds from sale of development rights/interest in development rights	1,492	-	1,047
Proceeds from disposal of subsidiaries	-	902	-
Repayment of loans advanced to individuals	108	486	1,569
Proceeds from repayment of loans given	11	565	1,439
Consideration paid to acquire mortgage loans from related party bank	-	-	(2,380)
<b>Net cash from / (used in) investing activities</b>	<b>1,434</b>	<b>(697)</b>	<b>(21,903)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings	12,437	25,197	37,584
Repayment of borrowings	(8,122)	(25,202)	(35,590)
Acquisition of non-controlling interests	-	(61)	(374)
Repurchase of own shares	-	-	(2,428)
Proceeds from sale of own shares	-	224	-
Transactions with founding shareholders	-	(385)	681
<b>Net cash from/(used in) financing activities</b>	<b>4,315</b>	<b>(227)</b>	<b>(127)</b>
Net increase/(decrease) in cash and cash equivalents	933	264	(13,859)
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	(34)
Cash and cash equivalents at beginning of year	3,417	3,153	17,046
<b>Cash and cash equivalents at end of year</b>	<b>4,350</b>	<b>3,417</b>	<b>3,153</b>



## 1 Background

### (a) Organisation and operations

OAQ Group of Companies PIK (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise of closed and open joint stock companies and limited liability companies incorporated under requirements of the Civil Law of the Russian Federation and entities registered in Cyprus and in the British Virgin Islands. The Company was established as a privately owned enterprise in 1994. Since 1 June 2007 The Company’s shares are traded on the London Stock Exchange (in the form of global depository receipts), Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX) in Russia.

The Company’s registered office is 19 BARRIKADNAYA ST., MOSCOW, 123001, RUSSIAN FEDERATION.

The primary activities of the Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements. During 2010, 2009 and 2008 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

At 1 January 2009, the beneficiary owners of the Company were two individuals, Kirill V. Pisarev and Yury V. Zhukov (the “Founding Shareholders”) who collectively had an interest of 74% of the voting shares of the Company.

In April 2009, Lacero Trading Limited, ultimately controlled by the Nafta Moskva Group, acquired a 25% stake in the Company from its Founding Shareholders.

The main shareholders of the Group are:

	2010	2009	2008
Lacero Trading Limited (Nafta Moskva Group)	18.3%	25.00%	-
Maritrade Investments Limited	12.5%	14.36%	37%
Forienst Investments Limited	10.5%	14.36%	37%
Holborner Services Limited	20%	10.66%	-
Artesia Consulting Limited	6.7%	-	-
Others	32%	35.62%	26%
	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

### (b) Business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

## **2 Basis of preparation**

### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except:

- financial investments classified as available-for-sale are stated at fair value;
- property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs at 1 January 2004;
- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

### **(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

### **(d) Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 8 *Revenue*
- Note 20 *Impairment*;
- Note 27 *Trade and other payables*;
- Note 28 *Provisions*; and
- Note 31 *Contingencies*.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 20 *Impairment*;
- Note 28 *Provisions* related to provision for costs to complete.

**(e) Changes in accounting policies and presentation**

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations
- accounting for acquisitions of non-controlling interests
- distribution of non-cash assets to owners of the Company

**(i) Accounting for business combinations**

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

*Acquisitions on or after 1 January 2010*

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus  
the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For the measurement of goodwill prior to 1 January 2010, see note 18(a).

**(ii) Accounting for acquisitions of non-controlling interests**

From 1 January 2010 the Group has applied IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

**(iii) *Accounting for leases of land***

The amendment to IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result

it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed.

**(iv) *Revision of master construction plans and construction budgets in 2010***

During 2010 the Group revised certain master construction plans and related construction budgets for social infrastructure and utilities for four big housing projects located in the Moscow region.

The revision of the master plans resulted in reduction of net sellable area and the respective increase in cost of infrastructure per square meter of sellable area. As a result additional costs of RUB 1,430 million were recognized during 2010 as related to apartments sold prior to 31 December 2009.

In addition, change in design of social infrastructure and utilities as per new requirements imposed by the local authorities resulted in an increase of cost of sales by RUB 2,751 million.

The total effect of the above changes of RUB 4,181 million was recognized in cost of sales during 2010.

There was no revision of master budgets with the effect of cost of sales during 2009 (2008: RUB 548 million).

**(f) *Change in accounting policy***

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments;
- presentation of financial statements.
- accounting for leases of land

**(g) Restatements**

**(i) Presentation of long-term loans and borrowings**

As at 31 December 2009 the Group was in breach of a debt to EBIDTA covenant related to a bank loan. This loan was classified as long-term loans and borrowings at 31 December 2009 since it matures after 31 December 2010 and there were certain arrangements with the respective bank in place not to early withdraw the loan on the grounds of this breach. IAS 1 *Presentation of Financial Statements* requires classifying a liability as current if a lender did not formally agree by the end of a reporting period to provide a period of grace ending at least twelve month after the reporting period, during which the lender cannot demand immediate repayment due to the breach. The Group modified the presentation of these balances in the comparative information as at 31 December 2009. This modification has resulted in an increase of short-term loans and borrowings and in the respective decrease in long-term loans and borrowings by RUB 15,844 million as at 31 December 2009.

**(ii) Revision of construction costs for certain completed projects**

During 2010, the Group has completed legal procedures on state registration of titles (transfer of title from the Group to customers) for certain residential properties. The revenue from sale of these properties was recognised in the consolidated financial statements for the years 2006-2009. On completion of these procedures the Group has performed a reconciliation of the total revenues and actual costs incurred, including those related to social infrastructure, to the estimate of the costs recognised in the IFRS financial statements for 2006-2008. As a result, the Group identified that certain costs and related tax effect have not been included in the estimates recognised in the respective years. The Group corrected this error by adjusting the respective balances as at 1 January 2009 and 31 December 2009. In addition, the Group has identified certain classification errors which have also been adjusted in these financial statements and resulted in an offset of the balances of inventories and accounts payable as at 31 December 2009.

These restatements had the following effect on previously issued financial statements:

**As at 1 January 2008 :**

	<u>As reported</u>	<u>Adjustment</u>	<u>As restated</u>
Retained earnings	27,335	(3,309)	24,026

**As at and for the year ended 31 December 2008:**

	<u>As reported</u>	<u>Adjustment</u>	<u>As restated</u>
Inventories	77,184	(3,966)	73,218
Total current assets	99,203	(3,966)	95,237
Total assets	143,260	(3,966)	139,294
Trade and other accounts payable	63,056	1,187	64,243
Total current liabilities	107,202	1,187	108,389
Deferred tax liability	6,135	(1,063)	5,072
Total non-current liabilities	16,101	(1,063)	15,038
Retained earnings	(1,011)	(4,091)	(5,102)
Total equity	19,958	(4,091)	15,867
Cost of sales	(24,423)	(848)	(25,271)
Gross profit	9,272	(848)	8,424
Loss before tax	(29,543)	(848)	(30,391)
Income tax benefit	1,277	66	1,343
Loss for the year	(28,181)	(782)	(28,963)

**As at and for the year ended 31 December 2009:**

	<b>As reported</b>	<b>Adjustment</b>	<b>As restated</b>
Inventories	67,345	(3,966)	63,379
Total current assets	82,319	(3,966)	78,353
Total assets	119,324	(3,966)	115,358
Loans and borrowings, current	16,169	15,844	32,013
Trade and other accounts payable	50,228	1,187	51,415
Total current liabilities	81,784	17,031	98,815
Loans and borrowings, non-current	22,121	(15,844)	6,277
Deferred tax liability	5,858	(1,063)	4,795
Total non-current liabilities	29,107	(16,907)	12,200
Retained earnings	(14,540)	(4,091)	(18,631)
Total equity	8,434	(4,091)	4,343

Impact on the Balance Sheet as at 1 January 2008 is not significant.

The above adjustments were reflected in these consolidated financial statements.

### **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in 2(f), which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

**(a) Basis of consolidation**

**(i) Business combinations**

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.

**(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions of controlling shareholdings in entities in which there is no integrated set of activities conducted and assets are managed for the purpose of providing a return to investors, are accounted for as purchases of assets. The consideration paid for such companies (typically entities holding development rights) is allocated to the identifiable assets and liabilities based on their relative fair values.

**(iii) Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

**(iv) *Investments in associates (equity accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**(v) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) *Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

**(c) *Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset

in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

#### ***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 24, loans issued as presented in note 21 and cash and cash equivalents.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

#### ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities and debt securities.

#### **(i) *Non-derivative financial liabilities***

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.



Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(ii) Share capital**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Repurchase, disposal and reissue of share capital (treasury shares)*

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

**(d) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 20-60 years
- plant and equipment 5-25 years
- fixtures and fittings 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(e) Intangible assets**

**(i) Goodwill**

Goodwill (negative goodwill) that arises on the acquisition of subsidiaries is included in intangible assets.

*Acquisitions prior to 1 January 2004*

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

*Acquisitions between 1 January 2004 and 1 January 2010*

For acquisitions *between 1 January 2004 and 1 January 2010*, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

**(ii) Development rights**

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognised in the profit or loss as an expense as incurred.

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. The cost of development rights includes the cost of obtaining the right to lease a land plot and the cost of obtaining the registered permit to construct a specific property.

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.

When the Group does not act as a developer, but participates in projects in the capacity of an investor or co-investor, the cost of development rights contributed to such projects is recognised within inventories, refer note 3(g) below.

**(iii) Other intangible assets**

Other intangible assets, which are acquired by the Group and which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

**(iv) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

**(v) Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

**(g) Inventories**

Inventories include construction work in progress when the Group acts in the capacity of a developer and the real estate is intended for sale, and prepayments made under investment and co-investment agreements for apartments intended for sale, raw materials, other work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs. These costs are allocated to completed individual apartments on a prorate basis relative to their size.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project, including finance costs. Where real estate property is not being actively developed, net rental and finance costs are taken to the profit or loss.

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Such investment contracts may require that the Group:

- for no consideration delivers certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc. The cost incurred and the liabilities assumed are presented on a gross basis in the statement of financial position;
- constructs certain infrastructure facilities in exchange of the ability to develop the properties, e.g., electricity, sewage systems, roads;
- constructs certain objects for public use where the expected compensation from the buyers will not reimburse the Group with the costs to be incurred, e.g., certain parking spaces;
- enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such contracts are negotiated with the local authorities as part of acquisition of the development rights, and they cannot be assessed as onerous (as described in note 3(e)(ii)), the costs to complete the construction are included in the total costs of construction of properties which these development rights relate to.

The cost of inventories, other than construction work in progress intended for sale and prepayments for real estate properties intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the Group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

The Group's normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the balance sheet date.

**(h) Impairment**

**(i) *Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Loans and receivables and held-to-maturity investment securities*

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**(ii)** *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated as at each annual reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(iii) *Non-current assets held for sale or distribution***

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

**(i) Employee benefits**

**(i) Contributions to state pension fund**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**(ii) Short-term benefits**

Short-term employee benefit obligations are measured on a n undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(i) Tax provisions**

The Group provides for tax exposures including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or cost of sales.

**(ii) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

As described in note 3(g), the Group enters into investment or co-investment agreements to develop residential buildings, the contracts may require that the Group delivers certain properties to the local authorities upon completion of the construction or/and construct certain infrastructure facilities in exchange for the ability to develop the property for no consideration. In addition the Group enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such agreements cannot be directly attributed to any of the Group's projects and the agreements are assessed as onerous, a provision is recognised in the Group's consolidated financial statements when entering into the agreement to complete the construction. The provision is estimated based on the present value of estimated unavoidable net costs to complete the construction.

**(iii) Warranties**

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

**(k) Revenues**

**(i) Revenue from sale of real estate properties**

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer's request.

Revenue from the sale of real estate property is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognised 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.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of real estate properties, transfer usually occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings ("State commission"). When contracts for sale of real estate are concluded after the State commission has accepted the construction of the respective building, revenue is recognised immediately.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

**(ii) Revenue from construction services**

Revenue from construction services rendered is recognised in the profit or loss on a monthly basis in accordance with the actual volume of works completed. The stage of completion is assessed monthly and fixed in acts of completed works signed by the Group and the customer. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects, where one Group entity participates as an investor/co-investor while a third party acts as a developer. At the same time other Group entities may provide construction services to the developer. Revenues from construction services relating to such projects are treated as an intercompany transaction and eliminated against related costs.

**(iii) Other sales**

Revenue from the sale of construction materials is recognised in the consolidated statement of comprehensive income when significant risks and rewards of ownership have been transferred to the buyer.



**(l) Other expenses**

**(i) Lease payments**

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

*Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

**(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit or loss as incurred.

**(m) Finance income and costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**(n) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(o) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

**(p) Earnings per share**

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(q) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 5).

Segment results that are reported to the Group’s CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group’s headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

**(r) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. None of these pronouncements will potentially have a material impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

## **4 Determination of fair values**

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**(b) Intangible assets**

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**(c) Inventories**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(d) Equity and debt securities**

The fair value of financial assets held-to-maturity and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**(e) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

**(f) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## **5 Operating segments**

During 2010 the Group changed the structure of its Internal organisation in a manner that caused the composition of its reportable segments to change. The corresponding information for earlier periods was restated accordingly.

Up to 31 December 2009 the Group analysed its operations on the basis of three reportable segments: Real estate development, Construction and Maintenance. Effective from 1 January 2010 the Group distinguishes four reportable segments which are the Group's strategic business units:

- *Real estate development*: The implementation of developments planned and undertaken by the Group, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing real estate projects to potential buyers.
- *Construction segment*: Contracting activities, production and assembly of prefabricated panel buildings and related activities.

- *Industrial segment:* Production of concrete panels, window frames and other construction materials.
- *Other:* Real estate maintenance services provided to tenants, transportation services and other activities.

There are varying levels of integration between the Real estate development, Construction and Industrial reportable segments. This integration includes construction services provided during the construction of the real estate for further reselling, production of construction materials. Inter-segment pricing may not be determined on an arm's length basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) *Segments profit and losses*

<b>mln RUB</b>	<b>Real estate development</b>			<b>Construction segment</b>			<b>Industrial segment</b>			<b>Other</b>			<b>Total</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
External revenues	26,334	30,684	22,905	7,411	6,925	5,345	1,581	2,130	1,298	2,610	2,163	4,866	37,936	41,902	34,414
Inter-segment revenue	-	-	-	16,191	11,751	22,635	2,023	1,041	2,581	2,022	2,677	11,635	20,236	15,469	36,851
Total revenue for reportable segments	26,334	30,684	22,905	23,602	18,676	27,980	3,604	3,171	3,879	4,632	4,840	16,501	58,172	57,371	71,265
Interest income	614	1,355	1,341	1	-	1	-	8	-	8	60	26	623	1,423	1,368
Interest expense	(3,981)	(5,645)	(3,399)	(56)	(97)	(107)	-	(41)	(11)	(131)	(203)	(64)	(4,168)	(5,986)	(3,581)
Depreciation and amortisation	(346)	(88)	(83)	(177)	(191)	(184)	(107)	(155)	(151)	(137)	(139)	(142)	(767)	(573)	(560)
Reportable segment profit/(loss) before income tax	(7,683)	2,810	(1,645)	825	193	(142)	(287)	(395)	(136)	293	(551)	(601)	(6,852)	2,057	(2,524)

(ii) **Geographical information**

The Real estate development, Industrial segment and Maintenance segments are managed on the Russia basis, but operate in three principal geographical areas, Moscow, the Moscow Region and the Other Regions.

In presenting information on the basis of geographical information, external revenue is based on the geographical location of development sites.

	<b>2010</b>	<b>Revenues</b>	<b>2008</b>
	<b>mln RUB</b>	<b>2009</b>	<b>mln RUB</b>
		<b>mln RUB</b>	<b>mln RUB</b>
Moscow	17,835	21,940	15,721
Moscow region	16,328	14,354	14,722
Other regions	3,773	5,608	3,971
	<b>37,936</b>	<b>41,902</b>	<b>34,414</b>

(iii) **Reconciliations of reportable segment revenues and profit or loss**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b>Revenues</b>			
Total revenue for reportable segments	58,172	57,371	71,265
Revenue of entities not included in reportable segments	738	158	481
Elimination of inter-segment revenue	(20,236)	(15,470)	(36,851)
Elimination of discontinued operations	-	(825)	(1,940)
Other	(584)	(59)	740
Consolidated revenue	<b>38,090</b>	<b>41,175</b>	<b>33,695</b>
<b>Profit or loss</b>			
Segment profit/(loss) before tax	(6,852)	2,057	(2,524)
Elimination of inter-segment profits	-	(20)	221
Elimination of discontinued operations and effect of reclassification to assets held for sale	-	(925)	(1,749)
Long-term lease agreements termination	2,032	-	-
Impairment of property, plant and equipment, intangible assets, inventories	(1,106)	(4,671)	(24,028)
Timing differences relating to recognition of costs	314	(4,184)	621
Impairment losses on financial assets	-	(481)	(2,547)
Provision for doubtful accounts	(595)	(1,666)	(127)
Difference in accruals of penalties and fines	(1,854)	(2,021)	-
Other expenses	(75)	96	(258)
Consolidated (loss)/profit from continuing operations before income tax	<b>(8,136)</b>	<b>(11,815)</b>	<b>(30,391)</b>

(iv) **Major customers**

In 2010 and 2009 no customer represented more than 10% of the Group's total revenue. In 2008, revenue from one customer of the Group's Sale of Real Estate represented approximately 20% of the Group's total revenue.

## 6 Assets held for sale and discontinued operation

### (a) Assets held for sale

#### *ZAO Ochakovsky ZhBK*

In July 2010 Management signed the agreement with a third party to sell ZAO Ochakovsky ZhBK, a subsidiary representing a construction project located in south of Moscow for the total consideration of RUB 2,157 million. Management plans to complete the transaction within 6 months after the reporting date.

As at 31 December 2010 the Group received an advance payment of RUB 1,492 million under this agreement.

#### *Park-City Project*

In December 2010 the Group decided to sell its share in Park-City project, an equity accounted investee, for a consideration of RUB 1,720 million. The carrying amount of the net assets related to the project were reduced to the net selling price resulting in a loss of RUB 2,724 million. The liabilities related to the project were presented as liabilities related to assets held for sale.

As at 31 December 2010 the disposal group comprised the following assets and liabilities:

<b>In million RUB</b>	<b>ZAO Ochakovsky ZhBK</b>	<b>Park-City Project</b>	<b>Total</b>
Property, plant and equipment	17	-	17
Investments in equity accounted investees	-	1,752	1,752
Inventories	1,747	1,217	2,964
Trade and other receivables	70	-	70
<b>Assets classified as held for sale</b>	<b>1,834</b>	<b>2,969</b>	<b>4,803</b>
Current liabilities	1,582	1,249	2,831
<b>Liabilities classified as held for sale</b>	<b>1,582</b>	<b>1,249</b>	<b>2,831</b>

### (b) Discontinued operation in 2009

On 26 June 2009 management committed to a plan to sell its mining operations included in the Industrial segment. The transaction was recognised in August 2009. These operations were not presented as discontinued operation or classified as held for sale as at 31 December 2008, therefore the comparative profit and loss was re-presented accordingly.

	<b>2009 mln RUB</b>	<b>2008 mln RUB</b>
<b>Results of discontinued operation</b>		
Revenue	825	1,940
Expenses	(925)	(1,749)
<b>Results from operating activities</b>	<b>(100)</b>	<b>191</b>
Income tax expense	(20)	(106)
<b>Results from operating activities, net of income tax</b>	<b>(120)</b>	<b>85</b>
Gain on sale of discontinued operation	1,313	-
<b>Profit for the year</b>	<b>1,193</b>	<b>85</b>
Basic earnings per share (RUB)	0.2	0.0

The profit from discontinued operation of RUB 1,193 million (2008: RUB 85 million) is attributable to the owners of the Group. Of the loss from continuing operations of RUB 12,681 million (2008: RUB 29,048 million), an amount of RUB 12,308 million is attributable to the owners of the Group (2008: RUB 28,828 million).



	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
<b>Cash flows from/(used in) discontinued operation</b>		
Net cash from/(used in) operating activities	35	(7)
Net cash (used in)/from financing activities	(52)	21
Net cash (used in)/from discontinued operation	<b>(17)</b>	<b>14</b>

**Effect of disposal on the financial position of the Group:**

	Note	<b>2009</b> <b>mln RUB</b>
Property, plant and equipment	17	(726)
Inventories	23	(473)
Trade and other receivables	24	(178)
Cash and cash equivalents	25	(15)
Deferred tax liabilities	22	38
Trade and other payables	28	590
Net assets and liabilities		(764)
Consideration received, satisfied in cash		871
Consideration received, satisfied in other financial assets		1,206
Total consideration received		2,077
Cash and cash equivalents disposed of		(15)

## 7 Acquisition of subsidiaries and non-controlling interest

### (a) Acquisitions of subsidiaries

There were no significant acquisitions of controlling interests in businesses in 2010 and 2009.

In 2008 the Group acquired interests in entities in which there were no integrated sets of activities conducted and assets managed for the purpose of providing a return to investors. Such acquisitions were accounted for as purchases of assets – refer note 18(b).

### (b) Acquisition of non-controlling interest

There were no acquisitions of non-controlling interest in 2010.

In February 2009 the Group acquired an additional interest of approximately 40% in OAO NovorosGrajdanproekt increasing its ownership to 97%. The shares were received in exchange for the extinguishment of a loan of RUB 201 million receivable from the minority shareholders of the subsidiary. Since the fair value of the shares received amounted to RUB 61 million, the difference between the amortised cost of the loan and the fair value of the loan amounting to RUB 140 million was recognised as an impairment of the loan (included in finance expenses).

The transaction had the following effect:

	<b>2009</b> <b>mln RUB</b>
Balance of the loan receivable before impairment	201
Impairment of financial asset recognised	(140)
Balance of the loan after impairment	61
Carrying amount of non-controlling interest	(61)
Net effect on equity	-

In February 2008 the Group partially exercised its option to acquire an additional 25% interest in the Storm Properties Group by acquiring additional 4.33% stake in the subsidiary for a consideration of RUB 189 million. The acquisition of the minority share resulted in additional goodwill of RUB 115 million.

In November 2008 the Group bought an additional 2.81% in OAO DSK-3 for a consideration of RUB 185 million, increasing its ownership to 87%. The acquisition resulted in recognition of additional goodwill amounting to RUB 170 million.

## 8 Revenue

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
Revenues from sale of apartments	27,123	30,740	23,230
Revenues from construction contracts	6,110	7,164	5,485
Revenues from sale of construction materials and other sales	4,857	3,271	4,980
	<b>38,090</b>	<b>41,175</b>	<b>33,695</b>

### (a) Revenue from sale of apartments

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Completions			
Buildings	30	35	37
Sellable area, thousand square meters	443	470	409
Underground garages (2 free standing)	5	-	5
Sellable parking spaces	927	-	909
Sales recognized			
Premises sold in buildings completed in current period, thousand square meters	355	404	307
Premises sold in buildings completed in prior periods, thousand square meters	79	88	71
	<b>434</b>	<b>492</b>	<b>378</b>
Parking spaces sold in buildings completed in current period	442	-	257

The Group has recognised revenue of RUB 20,626 million (2009: RUB 23,364 million; 2008: RUB 22,823 million) for the sale of apartments to individuals. Customers have the legal right to cancel the transaction up to the date of entering into final purchase agreements. Based on past experience, the percentage of transactions being reversed at the request of customers from the date when the sale is recognised is significantly lower than 1%. The Group has, therefore, recognised revenue in full amount without recognising any provision for returns. Had the actual returns been at a level of 1%, revenue for the year ended 31 December 2010 would have decreased by approximately RUB 206 million (2009: RUB 234 million; 2008: RUB 228 million).

In 2008-2010 the Group initiated a series of transactions with the Group's suppliers aimed at settling the balances of trade payables with apartments. During 2010 the revenues from sale of apartments in exchange for goods and services received amounted to RUB 6,497 million (2009: RUB 7,376 million; 2008: RUB 407 million).

**(b) Revenue from construction contracts**

	<b>31 December 2010</b> <b>mln RUB</b>
Costs incurred to date	10,090
Profits recognized to date	1,817
Amounts due from customers	625

During 2010, construction contract revenues of RUB 7,230 million (2009: RUB 3,884 million; 2008: RUB 9,363 million) related to construction services, were provided to developers of buildings where the Group participates as a co-investor.

**9 Cost of sales**

	<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
Cost of construction services	22,985	24,948	16,843
Effect of revision of social infrastructure costs	4,181	-	548
Salaries and wages	2,392	2,318	3,855
Overhead expenses	4,543	4,526	767
Materials	1,014	985	2,656
Depreciation	483	441	602
	<b>35,598</b>	<b>33,218</b>	<b>25,271</b>

**10 Personnel costs**

	<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
Salaries and wages	4,094	4,466	6,837
Social charges	616	664	1,001
	<b>4,710</b>	<b>5,130</b>	<b>7,838</b>

**11 Gains and losses on disposal of subsidiaries and development rights**

**(a) Disposal of subsidiaries and development rights in 2010**

On 12 April 2010 the Group sold Sturm Properties limited and its subsidiaries operating in the commercial real estate development segment for a negligible consideration. Since the subsidiaries had negative net assets at the date of disposal, the transaction resulted in a net gain of RUB 368 million.

**(b) Disposal of subsidiaries and development rights in 2009 and 2008**

In February 2009 the Group sold its 100% interest in OOO Rostovkapstroy. The subsidiary acted as a developer of residential premises in Rostov-on-Don.

In December 2009 the Group sold its 89% interest in Moreliabay Investments Ltd to offset outstanding project financing facility. Moreliabay Investments Ltd controlled a land plot intended for non-residential development in the Moscow region (North West Towers Project).

In December 2009 the Group sold its 100% interest in OOO Lasteya Art (Afanasevsky street project), which held the rights for a land plot intended for the development of a high-end residential living complex, to a related party.

In October 2009 the Group sold its land plot in Saint Petersburg (Marine Façade project) which was accounted for as development right.

In July 2009 the Group sold its 100% interest in Avtorita Holdings Ltd., which owned the corporate aircraft, to a related party.

The disposals had the following effect on the financial statements:

<b>In million RUB</b>	<b>OOO Rostov- kapstroy</b>	<b>Moreliabay Investments Ltd.</b>	<b>OOO Lasteya Art</b>	<b>Land plot in Saint Petersburg</b>	<b>Avtorita Holdings Ltd.</b>	<b>Others</b>	<b>Total</b>
Development rights	-	(2,752)	-	(2,055)	-	(21)	(4,828)
Property, plant and equipment	-	-	-	-	(629)	(95)	(724)
Inventories	(926)	-	(404)	-	-	-	(1,330)
Trade and other receivables	-	(117)	-	-	(178)	-	(295)
Trade accounts payable	857	-	-	-	-	1	858
Loans payable	-	1,752	-	-	591	-	2,343
<b>Net identifiable assets</b>	<b>(69)</b>	<b>(1,117)</b>	<b>(404)</b>	<b>(2,055)</b>	<b>(216)</b>	<b>(115)</b>	<b>(3,976)</b>
Consideration received/receivable	151	0.04	274	2,164	0.04	115	2,704
<b>Net gain/(loss) on disposal</b>	<b>82</b>	<b>(1,117)</b>	<b>(130)</b>	<b>109</b>	<b>(216)</b>	<b>-</b>	<b>(1,272)</b>

In addition, in August 2009 the Group sold its 100% interest in OOO PIK-Nerud and all of its subsidiaries which comprised non-metal mining operations of the Group – refer note 6.

There were no disposals of subsidiaries and development rights in 2008.

## 12 Distribution expenses

	<b>2010 mln RUB</b>	<b>2009 mln RUB</b>	<b>2008 mln RUB</b>
Salaries and wages	215	185	167
Advertising expenses	154	152	674
Other	119	140	133
	<b>488</b>	<b>477</b>	<b>974</b>

## 13 Administrative expenses

	<b>2010 mln RUB</b>	<b>2009 mln RUB</b>	<b>2008 mln RUB</b>
Salaries and wages	2,103	2,627	3,816
Professional and other services	351	436	574
Depreciation	273	316	268
Other administrative expenses	645	511	882
	<b>3,372</b>	<b>3,890</b>	<b>5,540</b>

## 14 Finance income and costs

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b>Finance income</b>			
Interest income	325	400	481
Other financial income	-	371	-
	<b>325</b>	<b>771</b>	<b>481</b>
<b>Finance costs</b>			
Interest expense	(4,050)	(4,614)	(2,749)
Penalties and fines related to loans' late repayment	(1,189)	(2,398)	-
Foreign exchange losses	(96)	(642)	(2,941)
Impairment losses on financial assets	-	(481)	(2,547)
Provision for doubtful accounts	(595)	(1,666)	(127)
Loss on disposal of available-for-sale financial assets	-	-	(15)
	<b>(5,930)</b>	<b>(9,801)</b>	<b>(8,379)</b>

During 2010 in addition to the borrowing costs recognised in the profit or loss, borrowing costs of RUB 462 million (2009: RUB 630 million; 2008: RUB 1,192 million) have been capitalised as part of the construction work in progress intended for sale.

## 15 Other income and expenses

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b>Other income and expenses, net</b>			
Effect of termination long-term land lease agreements	2,032	-	-
Penalties and fines	(2,191)	(238)	(106)
Other income and expenses	(214)	(153)	(194)
	<b>(373)</b>	<b>(391)</b>	<b>(300)</b>

The penalties and fines comprise of penalties related to the Group's failure to meet obligations with respect to the timing of completions of certain construction projects and late payments under investment contracts, as well as fines related to the breaches of regulation on construction under co-investment contracts.

## 16 Income tax benefit/(expense)

The income tax benefit/ (expense) consist of the following:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b>Current tax expense</b>			
Current year	(1,041)	(1,460)	(313)
Adjustment to prior year taxable income recognised in current period	1,339	-	-
Tax provision reversed (recognised), net (note 29)	(1,175)	318	(262)
	<u>(877)</u>	<u>(1,142)</u>	<u>(575)</u>
<b>Deferred tax credit/(expense)</b>			
Origination and reversal of temporary differences	2,928	276	912
Effect of change in the tax rate	-	-	1,006
	<u>2,928</u>	<u>276</u>	<u>1,918</u>
	<b><u>2,051</u></b>	<b><u>(866)</u></b>	<b><u>1,343</u></b>

During 2010 the Group decided to apply for a deduction from the prior year's taxable income with respect to expenses previously considered non-deductible. For risks associated with the adjustment to prior year taxable income recognized in current period refer to note 29.

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%, 2008 24%). The subsidiaries domiciled in Cyprus were taxed at a rate of 10%.

### Reconciliation of effective tax rate:

	<b>2010</b>		<b>2009</b>		<b>2008</b>	
	<b>mln RUB</b>	<b>%</b>	<b>mln RUB</b>	<b>%</b>	<b>mln RUB</b>	<b>%</b>
Loss before income tax, continuing operations	(8,136)	100	(11,815)	100	(30,391)	100
Income tax benefit at applicable tax rate	1,627	20	2,363	(20)	7,294	24
Effect of unrecognised deferred tax assets	26	-	(1,616)	14	(5,740)	(20)
Adjustment to prior year taxable income recognised in current period	1,339	16	-	-	-	-
Non-taxable income/ (non-deductible expenses)	361	4	(1,956)	17	(1,123)	(4)
Effect of the change in the tax rate	-	-	-	-	1,006	4
Tax provisions, net of reversals	(1,175)	(14)	318	(3)	(262)	(1)
Effect of income taxed at lower rates	(127)	(2)	25	-	168	1
	<b><u>2,051</u></b>	<b><u>25</u></b>	<b><u>(866)</u></b>	<b><u>7</u></b>	<b><u>1,343</u></b>	<b><u>4</u></b>

## 17 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
<i>Cost / Deemed cost</i>					
At 1 January 2008	7,146	4,011	1,939	1,380	14,476
Additions	-	-	-	3,650	3,650
Disposals	(88)	(300)	(184)	(276)	(848)
Transfers	1797	385	571	(2,753)	-
At 31 December 2008	8,855	4,096	2,326	2,001	17,278
Additions	-	-	-	570	570
Disposals	(69)	(322)	(194)	(29)	(614)
Disposal of subsidiaries (note 11)	(334)	(672)	(854)	(19)	(1,879)
Transfers	2,100	26	46	(2,172)	-
At 31 December 2009	10,552	3,128	1,324	351	15,355
Additions	-	-	-	506	506
Disposals	(154)	(154)	(417)	(37)	(762)
Transfers	138	95	205	(438)	-
At 31 December 2010	10,536	3,069	1,112	382	15,099
<i>Accumulated depreciation and impairment losses</i>					
At 1 January 2008	(458)	(1,105)	(357)	-	(1,920)
Impairment losses (note 20(f))	(1,469)	(199)	(125)	-	(1,793)
Depreciation charge	(287)	(450)	(234)	-	(971)
Disposals	15	129	102	-	246
At 31 December 2008	(2,199)	(1,625)	(614)	-	(4,438)
Impairment losses (note 20(f))	(423)	(52)	(24)	-	(499)
Depreciation charge	(291)	(335)	(192)	-	(818)
Disposals	5	263	93	-	361
Disposal of subsidiaries (note 11)	74	255	100	-	429
At 31 December 2009	(2,834)	(1,494)	(637)	-	(4,965)
Impairment losses (see note 20(f))	(305)	(209)	(11)	(22)	(547)
Reversal of impairment losses	268	22	3	-	293
Depreciation charge	(362)	(269)	(126)	-	(757)
Disposals	69	120	140	-	329
At 31 December 2010	(3,164)	(1,830)	(631)	(22)	(5,647)
<i>Net book value</i>					
At 1 January 2008	<b>6,688</b>	<b>2,906</b>	<b>1,582</b>	<b>1,380</b>	<b>12,556</b>
At 31 December 2008	<b>6,656</b>	<b>2,471</b>	<b>1,712</b>	<b>2,001</b>	<b>12,840</b>
At 31 December 2009	<b>7,718</b>	<b>1,634</b>	<b>687</b>	<b>351</b>	<b>10,390</b>
At 31 December 2010	<b>7,372</b>	<b>1,239</b>	<b>481</b>	<b>360</b>	<b>9,452</b>

**(a) Determination of deemed cost as at 1 January 2004**

Management commissioned an independent appraiser to determine the deemed cost of property, plant and equipment, other than construction in progress, of Group entities as at 1 January 2004 in order to determine its deemed cost on the date of the Group's adoption of IFRSs. In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of these values. The results of cash flow testing did not result in adjustments to the fair values determined on the basis of depreciated replacement cost.

**(b) Security**

At 31 December 2010 property, plant and equipment with a carrying value of RUB 4,319 million (2009: RUB 1,253 million; 2008: RUB 732 million) was pledged to secure bank loans (refer note 20).

**(c) Leased plant and machinery**

During the years ended 31 December 2010, 2009 and 2008 the Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2010 the net book value of leased plant and machinery was RUB 12 million (2009: RUB 35 million; 2008: RUB 270 million). The leased equipment secures lease obligations.

**(d) Construction in progress**

The balance of construction in progress includes prepayments made by the Group for acquisition of property, plant and equipment.

**(e) Depreciation expense**

Depreciation expense of RUB 483 million has been charged to cost of goods sold, RUB 1 million to distribution expenses, RUB 273 million to administrative expense (2009: RUB 441 million, RUB 5 million, RUB 316 million and RUB 56 million to expenses classified as discontinued operations, accordingly; 2008: RUB 602 million, RUB 5 million, RUB 268 million and RUB 96 million, accordingly).



## 18 Intangible assets

mln RUB	Goodwill	Development rights	Other intangible assets	Total
<b>Cost</b>				
At 1 January 2008	3,007	17,786	424	21,217
Acquisitions through business combinations	285	-	-	285
Additions	-	25,497	216	25,713
Impairment losses	(3,292)	-	-	(3,292)
Reclassification into construction work-in-progress	-	(793)	-	(793)
At 31 December 2008	-	42,490	640	43,130
Additions	-	2,007	1	2,008
Disposals and adjustments	-	(5,325)	-	(5,325)
Reclassification into construction work-in-progress	-	(144)	-	(144)
At 31 December 2009	-	39,028	641	39,669
Additions	-	743	-	743
Disposals	-	(1,321)	(493)	(1,814)
At 31 December 2010	-	38,450	148	38,598
<b>Accumulated amortisation and impairment losses</b>				
At 1 January 2008	-	-	(4)	(4)
Amortisation charge	-	-	(105)	(105)
Impairment losses (note 20(f))	-	(15,247)	(319)	(15,566)
At 31 December 2008	-	(15,247)	(428)	(15,675)
Amortisation charge	-	-	(42)	(42)
Impairment losses (note 20(f))	-	(3,040)	-	(3,040)
Reversal of impairment (note 20(f))	-	845	-	845
Impairment provision related to disposed assets	-	315	-	315
At 31 December 2009	-	(17,127)	(470)	(17,597)
Impairment losses (note 20(f))	-	(2,756)	-	(2,756)
Reversal of impairment (note 20(f))	-	3,598	-	3,598
Impairment provision related to disposed assets and terminated liabilities	-	573	318	891
Amortisation charge	-	-	(2)	(2)
Amortisation charge accumulated on disposals	-	-	112	112
At 31 December 2010	-	(15,712)	(42)	(15,754)
<b>Net book value</b>				
At 1 January 2008	<b>3,007</b>	<b>17,786</b>	<b>420</b>	<b>21,213</b>
At 31 December 2008	<b>-</b>	<b>27,243</b>	<b>212</b>	<b>27,455</b>
At 31 December 2009	<b>-</b>	<b>21,901</b>	<b>171</b>	<b>22,072</b>
At 31 December 2010	<b>-</b>	<b>22,738</b>	<b>106</b>	<b>22,844</b>

**(a) Goodwill**

At 31 December 2008 the aggregate carrying amounts of goodwill allocated to respective production plants or development companies were as follows:

	<b>2008</b> <b>mln RUB</b>
OAo DSK-3	1,890
Storm Properties Limited	707
OOO Foton GBI and OOO Foton ABZ	299
OAo 480 KGI	274
Goodwill attributable to other subsidiaries	122
	3,292
Less impairment losses	(3,292)
	-

**(b) Development rights**

As at 31 December 2010, 2009 and 2008 the Group's portfolio of development rights comprised of the following items:

		<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
<b>Subsidiary</b>	<b>Location of land plot</b>			
OAo Krasnopresnensky Sakharorafinadny Zavod	Moscow, Center (KSRZ) Moscow region, South-West, Kommunarka	8,339	8,071	8,071
OOO Status Land	Moscow, South-East (KHZ)	9,035	8,985	8,952
OOO RusBusinessInvest/OOO Maks Ltd	Yaroslavl (Frunzenskiy and Dzerzhinskiy districts)	2,387	3,093	2,986
OOO Waystone	Moscow, South, Kashirskoye	2,475	2,491	1,995
OOO Izh Stroi	Republic of Udmurtia, Izhevsk	1,852	1,836	1,836
ZAO Zavod Gazstroy mash	Moscow, South, Varshavkoye	1,615	1,146	1,126
OOO PIK Perm	Perm, Bakharevka	1,125	1,118	1,007
ZAO Zavod Krasniy Vostok	Moscow, South-east, Shelkovskoye	1,049	1,030	1,030
OOO Priz/OOO Rash	Kaliningrad region, Svetlogorsk	996	996	995
OOO Mayak	Moscow, South-west, Kievskoe	832	832	-
OOO Semigor	Krasnodar region, Novorossisk	883	883	650
OOO Alanteya	Moscow, South, Michurinskiy	701	665	665
OOO DSK SroyKonstrukciya 2 /160 DSK/PIK & Buran	Moscow Region, North-East	338	189	189
OOO Rostovskoye More (*)	Rostov region	186	186	368
OOO Proekt V	Moscow region, North-West (North West Towers) Saint Petersburg, Vasilevskiy	-	-	3,067
ZAO Neva Invest	Ostrov	-	-	2,069
Others entities		1,470	2,353	2,258
		<b>38,450</b>	<b>39,028</b>	<b>42,490</b>
Less provision for impairment		(15,712)	(17,127)	(15,247)
		<b>22,738</b>	<b>21,901</b>	<b>27,243</b>

(\*) In 2009 the Group partially cancelled the purchase agreement of a piece of land in the project and decreased the related liability of RUB 182 million.

Investments in development rights are made mostly through acquisitions of shares in subsidiaries which own or rent on a long-term basis certain land plots. The Group intends to obtain permissions required for further development of the sites. The subsidiaries do not have any other significant assets, liabilities, revenues and profits or losses as at and for the year ended 31 December 2010, 2009 and 2008. Accordingly, the consideration paid by the Group to acquire the subsidiaries was accounted as the acquisition of interests in land rights under development rights.

Major acquisitions of development rights in 2008-2010 through acquisition of legal entities were as follows:

Subsidiary	Location of land plot	Date	Shareholding acquired	Net sellable area, million square meters	Primary type of development	Consideration paid, mln RUB
<b>Acquisitions in 2008</b>						
OOO Status land	Moscow, South-west	Jan-2008	80%	1	Residential	7,165
Blakestone Limited, Cyprus(*)	Moscow, West, KSRZ	Dec-2008	50%	0.5/0.1	Commercial/Residential	8,071
ZAO Neva Invest OOO	St-Petersburg	Jul-2008	20%	0.2	Residential	2,069
Rusbusinessinvest and OOO Maks Ltd	Yaroslavl	Feb-2008	100%	0.9	Residential	2,986
OOO Izhstroy	Izhevsk, Udmurtia	Jun-2008	100%	1.8	Residential	1,836
OOO PIK Region Perm	Perm	Apr-2008	35%	0.35	Residential	1,007
OOO Alanteya	Moscow, South	Nov-2008	50%	0.02	Hotel	665
OOO Pulkovo Estate	St.-Petersburg Other land plots	Apr-2008	100%	0.05	Commercial	521
						1,177
						<u>25,497</u>
<b>Acquisitions in 2009</b>						
OOO Mayak (**)	Moscow, South-west, Kievskoe Other land plots	Mar-2009	100%	0.2	Commercial	832
						1,175
						<u>2,007</u>

(\*) In 2008 the Group acquired an additional 51% interest in this project for a consideration of RUB 5,395 million, increasing the Group's share in the project from 49% to 100%.

**(c) Other intangible assets**

As at 31 December 2009 the balance of other intangible assets includes promotion and development fees of RUB 317 million (RUB nil net of impairment) acquired as part of the acquisition of Storm Properties Limited in 2007 (2008: RUB nil net of impairment)).

In 2010 the Group sold its share in Storm Properties and reversed impairment of development fees as component of disposal Group.

## 19 Investments in equity accounted investees

The Group has the following investments in equity accounted investees, net of impairment:

	<b>Voting and</b>	<b>2009</b>	<b>2008</b>
<b>Country</b>	<b>effective</b>	<b>mln RUB</b>	<b>mln RUB</b>
ZAO Park-City Investments/ OOO KRPT (Project Park City)	Russia 33%/25%	3,460	3,522
		<b>3,460</b>	<b>3,522</b>

In November 2008, Group acquired a 50% interest, in addition to a 25% interest held prior to the transaction, in a Cyprus-based subsidiary which owned a share in the project Park City for a consideration of RUB 2,882 million. The transaction increased the effective ownership in the project from 25% to 33%.

In December 2010 the decided to sell its share in the project, therefore the related balances were classified as assets held for sale as at 31 December 2010 (refer note 6).

## 20 Impairment losses on non-financial assets and write down of inventories

At each reporting date the recoverable amount was determined for the following assets:

- property, plant and equipment;
- goodwill and other intangible assets acquired as part of business combination;
- development rights;
- investments in equity accounted investees;
- inventories.

### (a) Property, plant and equipment

The Group reviewed the carrying amounts of its property, plant and equipment and concluded that there are indicators that assets may be impaired at each reporting date. Therefore, the Group estimated the recoverable amounts of the respective cash generating units.

The values assigned to the key assumptions represent management's assessment of future trends in the construction industry and are based on both external sources and internal sources (historical data).

### (i) *Pre-fabricated panel manufacturing*

This group includes assets of OAO DSK-3, OAO DSK-2, OAO 480 KGI, OAO 100 KGI, OOO StroyInvest, OOO NSS, OOO Zavod ZBI StroyIndustriya. The following key assumptions were used to determine the value in use:

- The recoverable amount represents value in use as determined by discounting the future cash flows generated from the continuing use of the assets;
- The cash flows were projected based on actual operating results for 2010, 2009 and 2008, and the five-year business plan with adjustments for intra-group pricing; cash flows beyond the five-year period have been extrapolated using 1% growth rate for terminal value;
- Plants capacity utilisation is projected at 35% to 85% (2009: 18% to 100%; 2008: 33% to 86%);
- A nominal, pre-tax discount rate of 25% (2009: 25%; 2008: 25%) for RUB denominated cash flows was applied in determining the recoverable amount of the plants.

The above estimates are particularly sensitive to the following assumptions:

- A 10% decrease in the utilisation of the plants would result in an additional impairment loss of RUB 935 million (2009: RUB 694 million; 2008: RUB 1,302 million);
- A 1% increase in the discount rate from 25% to 26% would result in an additional impairment loss of RUB 121 million (2009: RUB 67 million; 2008: RUB 129 million).

**(ii) *Administrative building***

The recoverable amount of the administrative building used by the Group's headquarters since 2008 was determined by estimating future cash flows from rental income. The following key assumptions were used to determine the value in use:

- The rent was estimated at RUB 0.031 million (2009: RUB 0.032 million; 2008: RUB 0.033 million) per square meter per year for the 10-year period;
- Operating expenses were estimated at 1.5% of rental income (2009: 1.5%; 2008: 1.5%);
- A capitalisation rate of 9.8% (2009 and 2008: 9.8%) was applied in arriving at the estimated sales price at the end of the 10-year period;
- A pre-tax real discount rate of 15.6% (2009 and 2008: 15.6%) was applied in discounting the net cash inflows.

**(iii) *Vessel used for representative purposes in 2009 and 2008***

The recoverable amount of the vessel was determined at fair market value on the basis of recent transactions for similar assets.

**(b) *Goodwill and other intangible assets acquired as part of business combination***

For the purposes of impairment testing, goodwill was allocated to the Group's cash generating units, which primarily comprise production plants or development companies. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

**(c) *Development rights***

The Group reviewed its portfolio of the development rights to determine whether the assets are impaired.

In the absence of the market transactions for sale and purchase of similar assets, Management used future cash flow techniques to estimate the recoverable amounts of the development rights.

Cash flows were estimated based on the business plans for each project approved by management. The following key assumptions were used in determining the value in use:

- Cash flows were projected for each individually significant project;
- Sales prices for the apartments are based on market prices effective on the end of each reporting periods for similar properties;
- The margins for projects are based on the Group's historical data for completion of similar properties and vary from 1.5% to 39% (2009: 2% to 43% ; 2008: 10% to 53%);
- The projects are expected to commence during the period from 2011 to 2015;
- The Group will start receive sales proceeds 1 year after the commencement of a project; the Group will collect all sales proceeds one year after a project is complete;
- A real pre-tax discount rate of 21.4% (2009 and 2008: 21.4%) for RUB-based cash flows was applied for all projects except of Kommunarka (23%) in determining recoverable amounts.

The above estimates are particularly sensitive to the following assumptions:

- A one-year's delay in projected cash flows would result in an additional impairment loss of RUB 2,887 million (2009: RUB 6,271 million; 2008: RUB 3,865 million);
- An increase of the discount rate by 10% from 21.4% to 23.5% would result in an additional impairment loss of RUB 1,723 million (2009: RUB 5,122 million; 2008: RUB 3,869 million).

In 2009 and 2008 the Group's investment in equity accounted investees includes the Group's share in the project Park City. The carrying amount of the project was tested for impairment using the same assumptions applied for testing development rights disclosed above.

**(d) Inventories**

As disclosed in note 23, as at 31 December 2009 and 2008, the Group postponed commencement of construction works on a number of construction projects for more than a year. The net realisable value of such projects was determined by reference to future cash flows using similar assumptions to those applied for testing development rights – refer note (c), except that a real discount rate of 19% (2009 and 2008: 19%) was applied in determining net realisable value.

The estimates used in determining net realisable value are particularly sensitive to the following assumptions:

- A one-year's delay in projected cash flows would result in an additional inventory write down of RUB 628 million (2009: RUB 580 million; 2008: RUB 599 million);
- An increase of the discount rate by 10% from 19% to 21% would result in additional inventory write down of RUB 308 million (2009: RUB 331 million; 2008: RUB 553 million).

**(e) Results of impairment tests and inventory write downs**

	Note	31 December 2010			31 December 2009			31 December 2008		
		Carrying value	Impairment / write down	Balance after impairment	Carrying value	Impairment / write down	Balance after impairment	Carrying value	Impairment / write down	Balance after impairment
		mln RUB	mln RUB	mln RUB	mln RUB	mln RUB	mln RUB	mln RUB	mln RUB	mln RUB
Property, plant and equipment	17	12,033	(2,581)	9,452	12,682	(2,292)	10,390	14,633	(1,793)	12,840
Goodwill and promotion and development fees		-	-	-	317	(317)	-	3,611	(3,611)	-
Development rights	18	38,450	(15,712)	22,738	39,028	(17,127)	21,901	42,490	(15,247)	27,243
Inventories	23	69,311	(1,677)	67,634	72,699	(5,354)	67,345	12,850	(3,377)	9,473
		<b>119,794</b>	<b>(19,970)</b>	<b>99,824</b>	<b>124,726</b>	<b>(25,090)</b>	<b>99,636</b>	<b>73,584</b>	<b>(24,028)</b>	<b>49,556</b>

**(f) Impairment losses and reversals of impairment**

	Note	<b>2010</b>	<b>2009</b>	<b>2008</b>
		<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b><u>Impairment losses and write downs</u></b>				
Property, plant and equipment	17	(547)	(499)	(1,793)
Development rights impairment	18	(2,756)	(3,040)	(15,247)
Inventory write down	23	(577)	(1,977)	(3,377)
Assets held for sale	6	(2,724)	-	-
Goodwill, promote and development fees		-	-	(3,611)
		<b>(6,604)</b>	<b>(5,516)</b>	<b>(24,028)</b>
<b><u>Reversal of impairment</u></b>				
<i>Reversals</i>				
Property, plant and equipment		192	-	-
Development rights	18	3,598	845	-
Inventory	23	1,708	-	-
		<b>5,498</b>	<b>845</b>	<b>-</b>
		<b>(1,106)</b>	<b>(4,671)</b>	<b>(24,028)</b>

In addition, impairment losses have been reversed in the following amounts due to disposals of the respective assets. The related gains and losses were included in other expenses, gains on disposal of subsidiaries.

	Note	<b>2010</b>	<b>2009</b>	<b>2008</b>
		<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b><u>Derecognitions related to disposals</u></b>				
Property, plant and equipment reverse due to the disposal		101	-	-
Promote and development fees		318	-	-
Development rights		573	315	-
Inventory	23	2,371	-	-
		<b>3,363</b>	<b>315</b>	<b>-</b>

**21 Other investments**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b><i>Non-current</i></b>			
Loans receivable and promissory notes receivable from related parties	-	1,028	-
Interest receivable related to loans receivable from related parties	-	133	-
Available-for-sale equity investments	177	183	181
Mortgage loans	-	37	119
Other unsecured loans and promissory notes receivable from third parties	88	94	43
	<b>265</b>	<b>1,475</b>	<b>343</b>
Less provision	(263)	(478)	(174)
	<b>2</b>	<b>997</b>	<b>169</b>

<b>Current</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
Unsecured loans receivable from equity accounted investee	-	488	342
Other unsecured loans and promissory notes receivable from third parties	237	298	1,020
Mortgage loans	78	190	692
Interest receivable	17	87	266
Unsecured loan from a related parties	-	15	158
Unsecured loan from a third party	-	-	2,838
Unsecured loans receivable from related parties (RUB denominated, 10-11% per annum)	580	-	1,052
Others	12	-	208
	<u>924</u>	<u>1,078</u>	<u>6,576</u>
Less provision	<u>(146)</u>	<u>(206)</u>	<u>(2,353)</u>
	<b><u>778</u></b>	<b><u>872</u></b>	<b><u>4,223</u></b>

## 22 Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

<b>mln RUB</b>	<b>Assets</b>			<b>Liabilities</b>			<b>Net</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Property, plant and equipment	57	7	130	(319)	(359)	(765)	(262)	(352)	(635)
Investments	3	17	-	-	-	(60)	3	17	(60)
Intangible assets	-	7	-	(65)	(60)	(61)	(65)	(53)	(61)
Inventories	1,030	2,393	2,018	(458)	(289)	(318)	572	2,104	1,700
Trade and other receivables	412	341	292	-	(2)	(162)	412	339	130
Loans and borrowings	-	-	16	-	-	-	-	-	16
Trade and other payables	660	219	40	(3,166)	(7,078)	(6,811)	(2,506)	(6,859)	(6,771)
Tax loss carry-forwards	87	95	680	-	-	-	87	95	680
	<u>2,249</u>	<u>3,079</u>	<u>3,176</u>	<u>(4,008)</u>	<u>(7,788)</u>	<u>(8,177)</u>	<u>(1,759)</u>	<u>(4,709)</u>	<u>(5,001)</u>
Tax assets/(liabilities)	<u>(1,915)</u>	<u>(2,993)</u>	<u>(3,105)</u>	<u>1,915</u>	<u>2,993</u>	<u>3,105</u>	<u>-</u>	<u>-</u>	<u>-</u>
Set off of tax									
Net tax assets/(liabilities)	<u>334</u>	<u>86</u>	<u>71</u>	<u>(2,093)</u>	<u>(4,795)</u>	<u>(5,072)</u>	<u>(1,759)</u>	<u>(4,709)</u>	<u>(5,001)</u>

### (b) Unrecognised deferred tax assets

Deferred tax assets of RUB 7,131 million (31 December 2009: RUB 7,157 million; 31 December 2008: RUB 5,808 million;) have not been recognised in respect of the deductible temporary differences. The assets have not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Tax losses expire in 2018.



(c) **Unrecognised deferred tax assets and liabilities related to investments in subsidiaries**

As at 31 December 2010 there were no unrecognised deferred tax liabilities related to investments in subsidiaries since the tax value of the investments in subsidiaries exceeded the net assets of the respective subsidiaries. The unrecognised deferred tax asset amounted to RUB 12,200 million.

(d) **Movement in temporary differences during the year**

mln RUB	1 January 2010	Recognised in profit or loss	Changes due to disposal subsidiaries	31 December 2010
Property, plant and equipment	(352)	90	-	(262)
Investments	17	(14)	-	3
Intangible assets	(53)	(34)	22	(65)
Inventories	2,104	(1,532)	-	572
Trade and other receivables	339	73	-	412
Trade and other payables	(6,859)	4,353	-	(2,506)
Tax loss carry-forwards	95	(8)	-	87
	<b>(4,709)</b>	<b>2,928</b>	<b>22</b>	<b>(1,759)</b>

mln RUB	1 January 2009	Recognised in profit or loss	Changes due to disposal of subsidiaries	31 December 2009
Property, plant and equipment	(635)	267	16	(352)
Investments	(60)	77	-	17
Intangible assets	(61)	8	-	(53)
Inventories	1,700	404	-	2,104
Trade and other receivables	130	209	-	339
Loans and borrowings	16	(16)	-	-
Trade and other payables	(6,771)	(88)	-	(6,859)
Tax loss carry-forwards	680	(585)	-	95
	<b>(5,001)</b>	<b>276</b>	<b>16</b>	<b>(4,709)</b>

mln RUB	1 January 2008	Recognised in profit or loss	Changes due to disposal of subsidiaries	Effect of change on tax rate	31 December 2008
Property, plant and equipment	(915)	176	(23)	127	(635)
Investments	10	(82)	-	12	(60)
Intangible assets	(42)	(31)	-	12	(61)
Inventories	1,390	644	-	(334)	1,700
Trade and other receivables	(761)	917	-	(26)	130
Loans and borrowings	50	(31)	-	(3)	16
Trade and other payables	(6,639)	(1,486)	-	1,354	(6,771)
Tax loss carry-forwards	11	805	-	(136)	680
	<b>(6,896)</b>	<b>912</b>	<b>(23)</b>	<b>1,006</b>	<b>(5,001)</b>

## 23 Inventories

	<b>2010</b> mln RUB	<b>2009</b> mln RUB	<b>2008</b> mln RUB
Construction work in progress, intended for sale	60,367	57,693	64,816
Raw materials and consumables	1,443	1,118	1,599
Work in progress	315	757	1,679
Finished goods and goods for resale	5,509	3,811	5,124
	<b>67,634</b>	<b>63,379</b>	<b>73,218</b>
Write down	(1,677)	(5,354)	(3,377)

At 31 December 2010, 2009, 2008 the balances of construction work in progress and finished goods include the cost of development rights in respect of which the construction process commenced before the respective dates.

As at 31 December 2008 the Group revised its portfolio of construction projects and decided to temporarily suspend construction of certain properties for one year and longer. Although such periods are considered to be beyond the normal operating cycle, because fluctuations in the operating cycle are common in the real estate sector as the economics change, such projects continue to be classified as current because the business model for the Group has not changed.

Due to current economic environment in 2009 and 2008, the Group tested its construction to determine whether the net realisable value exceeds their carrying amounts. As a result the Group wrote down the balance of inventories by RUB 577 million (2009: RUB 1,977 million; 2008: RUB 3,377 million).

In 2010 the Group revised its estimates with respect to the market input data used to estimate the net selling price for some of the Group's construction projects based on independent appraiser report. As a result the Group recognized a reversal of the write-downs of these projects of RUB 1,708 million.

During 2010 the Group terminated several agreements with local authorities for a long-term lease of land plot and derecognised accounts payable in amount of RUB 2,371 million in respect of these agreements.

At 31 December 2009, inventory with a carrying value of RUB 5 million (2009: RUB 1,842 million; 2008: RUB 2,020 million;) was pledged to secure bank loans (refer note 20).

## 24 Trade and other receivables

	<b>2010</b> mln RUB	<b>2009</b> mln RUB	<b>2008</b> mln RUB
Trade accounts receivable	7,785	6,996	8,572
Advances paid	1,679	1,688	2,290
Taxes receivable	1,161	1,385	1,263
Others	1,252	529	1,999
	<b>11,877</b>	<b>10,598</b>	<b>14,124</b>
Impairment losses	(1,403)	(1,430)	(288)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

## 25 Equity

### (a) Share capital

Number of shares unless otherwise stated	<b>Ordinary shares 2010</b>	<b>Ordinary shares 2009</b>	<b>Ordinary shares 2008</b>
Authorised shares	979,575,384	856,260,384	856,260,384
Par value	RUB 62.5	RUB 62.5	RUB 62.5
On issue at beginning of year	493,260,384	489,970,384	493,260,384
Acquisition of treasury shares in January 2008	-	-	(3,290,000)
Sale of treasury shares in September 2009	-	3,290,000	-
	<b>493,260,384</b>	<b>493,260,384</b>	<b>489,970,384</b>
On issue at end of year, fully paid	<b>493,260,384</b>	<b>493,260,384</b>	<b>489,970,384</b>

The share capital of RUB 10 million was formed prior to 31 December 2002, when the Russian economy was considered to be hyperinflationary for IFRS purposes. Therefore the balance of the share capital was adjusted for the effect of hyperinflation amounting to RUB 13 million. As a result, the carrying value of the share capital as at 31 December 2004 amounted to RUB 23 million.

In October 2010 the additional share issue of 123,315,000 shares was registered with the Federal Service on Financial Markets (FSFM) of Russian Federation. The shares have not been issued and paid up.

### (b) Reserve for own shares

In January 2008 the Group acquired 3,290,000 ordinary shares of the Company for a total consideration of RUB 2,428 million (or RUB 738 per share). The shares were pledged to secure a bank loan – refer note 27.

In September 2009 these shares were sold to a third party for a consideration of RUB 224 million (or RUB 68 per share).

### (c) Dividends

In accordance with the Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. The Company did not have distributable reserves as at 31 December 2010.

### (d) Additional paid-in capital

#### (i) *Acquisition of shares in subsidiaries in 2008*

In April 2008 the Group received contributions from the Founding Shareholders in the amount of RUB 681 million compensating the Group for the costs incurred in 2007 for acquisition of legal ownership over the shares in certain subsidiaries of the Group. The contribution was recognised as an increase in additional paid-in capital in 2008.

#### (ii) *Fees for guarantee arrangements in 2008*

In 2008 the Group recognised a liability of RUB 385 million with a corresponding charge to retained earnings, to the entities controlled by the Founding Shareholders in exchange for the entities pledging their shares in the capital of the Company to secure a bank loan received by the Group. As at 31 December 2009, the liability has been paid in full.

**(e) Earnings per share**

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares. The following is a reconciliation of the weighted average number of shares:

<i>In thousands of shares</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Issued shares at 1 January	493,260	489,970	493,260
Effect of shares acquired in January 2008	-	-	(3,016)
Effect of shares sold in September 2009	-	823	-
Weighted average number of shares for the year ended 31 December	<b>493,260</b>	<b>490,793</b>	<b>490,244</b>

**26 Loans and borrowings**

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 29.

	<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
<b><i>Non-current</i></b>			
Secured bank loans	3,317	4,304	8,321
Unsecured bank loans	-	1,900	-
Unsecured loans from third parties	1,599	73	61
Unsecured loans from related parties	-	-	-
Finance lease liabilities	-	-	11
	<b>4,916</b>	<b>6,277</b>	<b>8,393</b>
<b><i>Current</i></b>			
Secured bank loans	35,683	26,735	20,477
Unsecured bank loans	-	3,024	7,744
Unsecured loans from third parties	642	997	1,856
Unsecured loans from related parties	323	-	463
Secured loans from third parties	-	-	866
Current portion of finance lease liability	-	2	76
Interest payable	1,132	561	260
Penalties payable	1,282	694	-
	<b>39,062</b>	<b>32,013</b>	<b>31,742</b>
	<b>43,978</b>	<b>38,290</b>	<b>40,135</b>

As at 31 December 2010, 2009 and 2008 the bank loans were secured with:

- property, plant and equipment with a carrying value of RUB 4,319 million (2009: RUB 1,253 million; 2008: RUB 732 million);
- inventory with a carrying value of RUB 5 million (2009: RUB 1,842 million; 2008: RUB 2,020 million);
- development rights with a carrying value of RUB 972 million (2009: RUB 897 million; 2008: RUB 2,752 million);

- investment rights for residential and commercial real estate with a total saleable area of 215 thousand square meters in Moscow and the Moscow Region and nil square meters in other regions (31 December 2009: 1,393 thousand square meters and 17 thousand square meters, respectively; 31 December 2008: 1,714 thousand square meters and nil, respectively);
- shares of the following subsidiaries which comprise a substantial part of the Group:

	2010		2009		2008	
	Number of shares	% of share capital	Number of shares	% of share capital	Number of shares	% of share capital
OAo DSK-2	51,950,334	98	51,950,334	98	51,950,334	98
OAo DSK-3	1,747,081	81	1,747,081	81	1,747,081	81
OAo 480 KGI	1,556,430	100	1,556,430	100	-	-
OAo KHZ	1,454,600	92	1,454,600	92	1,454,600	92
OAo 160 DSK	1,219,628	75	813,087	50	406,541	25
Avtorita Holdings Ltd	-	-	-	-	50,000	100
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	334,000	100	170,000	100	42,501	25
ZAO TP Red East	37,317	93	37,317	93	37,317	93
OAo 100 KGI	10,016	77	10,016	77	-	-
ZAO Stroybusinesscenter	10,000	100	10,000	100	10,000	100
ZAO Podmoskovye 160 DSK	5,811	63	5,811	63	5,811	63
ZAO Monetchik	100	100	100	100	100	100
ZAO PIK Zapad	110	100	110	100	110	100
OOO NSS	-	100	-	100	-	100
OOO StroyInvest	-	100	-	100	-	100
OOO Semigor	-	100	-	100	-	100
OOO Status Land	-	100	-	100	-	100
OOO Kholdingovaya Kompanya Upravlenie Experimentalnoy Zastroyki Novokurkino	-	100	-	100	-	100

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

#### 31 December 2010

mln RUB	Total	Overdue	Under 1 year	1 - 5 years
<i>Secured bank loans</i>				
RUB - fixed at 12-14%	4,955	-	1,900	3,055
RUB - fixed at 12-16%, payable on demand	22,903	-	22,903	-
USD - fixed at 10-15%	6,725	6,086	377	262
USD - fixed at 10,3 payable on demand	4,417	-	4,417	-
<i>Unsecured loans from third parties</i>				
RUB - fixed at 0%	56	56	-	-
RUB - fixed at 0.1% - 10%	98	38	41	19
RUB - fixed at 10.1% - 16%	2,021	10	431	1,580
USD - fixed at 3-12%	66	8	58	-
<i>Unsecured loans from related parties</i>				
RUB - fixed at 12%	323	-	323	-
Interest payable	1,132	-	1,132	-
Penalties payable	1,282	-	1,282	-
	<b>43,978</b>	<b>6,199</b>	<b>32,863</b>	<b>4,916</b>

**31 December 2009**

<b>mln RUB</b>	<b>Total</b>	<b>Overdue</b>	<b>Under 1 year</b>	<b>1 - 5 years</b>
<i>Secured bank loans</i>				
RUB - fixed at above 10%	4,454	1,304	-	3,150
RUB - fixed at 12%, payable on demand	15,844	-	15,844	-
USD - fixed at 6% and below	10,741	9,587	-	1,154
<i>Unsecured bank loans</i>				
RUB - fixed at 14%	1,900	-	-	1,900
USD - fixed at 10.8% - 18%	3,024	3,024	-	-
<i>Unsecured loans from third parties</i>				
RUB - fixed at 0%	51	-	51	-
RUB - fixed at 0.1% - 10%	744	-	671	73
RUB - fixed at 10.1% - 16%	275	-	275	-
Interest payable	561	-	561	-
Penalties payable	694	-	694	-
Finance lease liabilities (RUB)	2	-	2	-
	<b>38,290</b>	<b>13,915</b>	<b>18,098</b>	<b>6,277</b>

**31 December 2008**

<b>mln RUB</b>	<b>Total</b>	<b>Under 1 year</b>	<b>1 - 5 years</b>
<i>Secured bank loans</i>			
RUB - fixed at 8% - 10%	13,991	6,875	7,116
RUB - fixed at above 10%	62	62	-
USD - fixed at 8% and below	14,745	13,540	1,205
<i>Unsecured bank loans</i>			
RUB - fixed at 9% - 12%	4,366	4,366	-
USD - fixed at 5% - 12%	3,378	3,378	-
<i>Secured loans from third parties</i>			
RUB - fixed at 12%	866	866	-
<i>Unsecured loans from third parties</i>			
RUB - fixed at 0%	299	298	1
RUB - fixed at 0.1% - 10%	662	659	3
RUB - fixed at 11% - 18,5%	743	743	-
RUB - fixed at 20% - 29%	146	146	-
USD - fixed at 3% - 12%	67	10	57
<i>Unsecured loans from related parties</i>			
RUB - fixed at 0%	169	169	-
USD - fixed at 10%	294	294	-
Interest payable	260	260	-
Finance lease liabilities (RUB)	87	76	11
	<b>40,135</b>	<b>31,742</b>	<b>8,393</b>

In November 2009, the Group has successfully completed the restructuring process with main lenders which agreed to defer the repayment of loans amounting approximately to RUB 18,336 million to the period from 2011 to 2014.

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, and cross-default provisions. Covenant breaches generally permit lenders to demand accelerated repayment of the principal and interest. As at 31 December 2010 and 2009 the Group breached the following financial covenants in various loan agreements in amount of RUB 27,317 million (2009: RUB 15,844 million; 2008: RUB 9,828 million): debt to EBITDA, positive net assets as per statutory financial statements. These loans are classified as current, payable on demand, as at 31 December 2010, 2009 and 2008.

Since the balance of the loan with the contracted maturity of more than 12 months from the period end was classified as current and payable on demand, due to the breach of covenants as described above, the Group's current liabilities exceeded the current assets by RUB 27,598 billion. Management does not believe that early repayment will be requested as a consequence of the breach of the loan covenant since the Group's financial position and result for 2010 was evident to the lender. Further, a substantial part of the loan is secured by pledged development properties with the remainder covered by a government guarantee.

## 27 Trade and other payables

	2010	2009	2008
	mln RUB	mln RUB	mln RUB
<i>Non-current</i>			
Accounts payable for construction works and other trade payables	-	1,117	1,419
Other liabilities	20	11	108
	<b>20</b>	<b>1,128</b>	<b>1,527</b>
<i>Current</i>			
Advances from customers	29,949	26,448	34,849
Accounts payable for construction works and other trade payables	13,127	14,311	14,500
Accounts payable for acquisition of development rights	1,683	2,487	6,580
Advances received for sale of development rights	1,492	-	-
Other taxes payable	3,794	6,519	4,883
Other payables	3,406	1,650	3,431
	<b>53,451</b>	<b>51,415</b>	<b>64,243</b>

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 29.

## 28 Provisions

	2010	2009	2008
	mln RUB	mln RUB	mln RUB
Site restoration provision	-	-	77
Provision for cost to complete	19,622	13,526	11,384
Tax provision	1,738	609	817
	<b>21,360</b>	<b>14,135</b>	<b>12,278</b>

Estimated costs to complete represent the Group's estimate of future costs which are expected to be incurred in relation to construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate etc., which the Group is obliged to build as part of its arrangements with municipal authorities.

These estimates are particularly dependant on the changes in city development regulations, which may trigger the changes in the investment contacts with the Group, change in prices for construction materials and labor, and the ability of the Group to further sell such assets at expected prices.

The tax provisions primarily comprise of a provision of income tax of RUB 1,691 million and other taxes of RUB 47 million (31 December 2009: RUB 537 million and RUB 72 million, accordingly; 31 December 2008: RUB 855 million and RUB 38 million, accordingly). The provision includes penalties and has not been subject to discounting.

<b>mln RUB</b>	<b>Provision for costs to complete</b>	<b>Provision for tax</b>	<b>Total</b>
As at 1 January 2010	13,526	609	14,135
Additional provisions	11,101	1,279	12,380
Releases of provisions	-	(150)	(150)
Amounts used	(5,005)	-	(5,005)
<b>As at 31 December 2010</b>	<b>19,622</b>	<b>1,738</b>	<b>21,360</b>

## 29 Financial instruments

### (a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.



**(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

**(i) Sale of apartments to individuals**

The Group is not significantly exposed to credit risk in connection with sales of apartments to individuals as such sales are significantly only on a prepayment basis.

**(ii) Trade receivables from organisations**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. These provide for penalties in the event of late payment. The Group's review includes external ratings, when available, and in some cases bank references.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a governmental agency or commercial organisation, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

**(iii) Other investments**

The Group has established a formal procedure in relation to investments in other loans and equity securities available-for-sale. The procedure includes organisation of working groups which conclude on the feasibility of a potential investment. The working groups consist of representatives of major management bodies of the Group. The groups study legal, financial and economic implications of any suggested investment.

**(iv) Guarantees**

The Group's policy is to provide financial guarantees only to the Group's subsidiaries and related parties.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<b>mln RUB</b>	<b>Carrying amount</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Loans and receivables	10,051	9,896	17,309
Cash and cash equivalents	4,350	3,417	3,153
	<b>14,401</b>	<b>13,313</b>	<b>20,462</b>

All of the Group's receivables are from customers located in Russian Federation.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

<b>mln RUB</b>	<b>Carrying amount</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
State agencies	-	183	-
Receivables for services provided	3,785	3,108	5,098
Entities with significant state share in equity	4,000	3,705	3,474
	<b>7,785</b>	<b>6,996</b>	<b>8,572</b>

As at 31 December 2008, the Group does not have significant concentration of risk in relation to trade in other receivables.

### **Impairment losses**

The aging of trade receivables and loans receivable at the reporting date was:

<b>mln RUB</b>	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
Not past due	7,249	(262)	6,859	(478)	15,009	(2,514)
Past due 31-120 days	146	(146)	1,078	(206)	13	(13)
More than one year	1,403	(1,403)	1,430	(1,430)	288	(288)
	<b>8,798</b>	<b>(1,811)</b>	<b>9,367</b>	<b>(2,114)</b>	<b>15,310</b>	<b>(2,815)</b>

The movement in the allowance for impairment in respect of trade receivables and loans receivable during the year was as follows:

<b>mln RUB</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Balance at beginning of the year	2,114	2,815	141
Increase during the year	595	2,147	2,674
Amounts written off against financial assets	(898)	(2,848)	-
Balance at end of the year	<b>1,811</b>	<b>2,114</b>	<b>2,815</b>

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. However, certain provisions were made in respect of loans issued although their contracted maturities have not been breached.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

### **(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Group treasury carries out liquidity risk management including risks which the Group would face in the long-, medium- and short-term periods under governance approved and provided by the Board that reviewed regularly in order to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group in order to control cash balance available at any time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. As stated in note 27 the Group has breached covenants in many of its loan agreements as at 31 December 2009 and 31 December 2008. Therefore, the lenders have the right to claim for the repayments before the contracted maturities. Where covenants are in breach as at the end of the reporting period, the loans are presented as payable within 6 months after the reporting period end in the table below.

2010 mln RUB	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	Total
	Contractual	Effective						
Secured bank loans	10,3-16%	10,3-16%	35,581	101	3,317	-	-	38,999
Trade and other payables			19,688	-	20	-	-	19,708
Interest payable			1,439	208	944	-	-	2,591
Unsecured loans from related parties	12%	12%	323	-	-	-	-	323
Unsecured loans from third parties	0-16%	0-16%	189	454	292	1,307	-	2,242
Penalties payable			1,282	-	-	-	-	1,282
Guarantee provided			2,286	-	-	-	-	2,286
			<b>60,788</b>	<b>763</b>	<b>4,573</b>	<b>1,307</b>	<b>-</b>	<b>67,431</b>

2009 mln RUB	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	Total
	Contractual	Effective						
Secured bank loans	6-12%	10-18%	18,856	7,879	1,157	-	3,147	31,039
Finance lease liabilities	-	16-25%	-	2	-	-	-	2
Unsecured bank loans	10,8-18%	10-18%	3,024	-	1,900	-	-	4,924
Trade and other payables			17,320	-	1,128	-	-	18,448
Interest payable			1,072	511	1,006	714	302	3,605
Unsecured loans from third parties	0-16%	0-16%	997	-	73	-	-	1,070
Penalties payable			694	-	-	-	-	694
Guarantee provided			2,268	-	-	-	-	2,268
			<b>44,231</b>	<b>8,392</b>	<b>5,264</b>	<b>714</b>	<b>3,449</b>	<b>62,050</b>

2008 mln RUB	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	Total
	Contractual	Effective						
Secured bank loans	8-10%	8-10%	11,455	9,022	5,379	2,942	-	28,798
Finance lease liabilities	-	16-25%	48	28	11	-	-	87
Unsecured bank loans	5-12%	5-12%	7,598	146	-	-	-	7,744
Trade and other payables			22,984	-	1,527	-	-	24,511
Unsecured loans from third parties			1,856	-	61	-	-	1,917
Interest payable			1,807	1,547	807	614	-	4,775
Secured loans from third parties	12%	12%	866	-	-	-	-	866
			<b>46,614</b>	<b>10,743</b>	<b>7,785</b>	<b>3,556</b>	<b>-</b>	<b>68,698</b>

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian Rouble (RUB). The currency in which these transactions primarily are denominated in U.S. Dollars (USD).

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUB, but also USD. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

mln RUB	USD-	USD-	USD-
	denominated	denominated	Denominated
	2010	2009	2008
Cash	3	26	103
Short-term investments	-	-	1,217
Receivables	79	75	53
Trade payables	-	36	(11)
Other payables	(1,447)	(408)	(575)
Promissory notes	(106)	(6)	(2,812)
Loans and borrowings	(11,207)	(13,765)	(18,484)
	<b>(12,678)</b>	<b>(14,042)</b>	<b>(20,509)</b>

The RUB/USD exchange rates at 31 December 2010, 31 December 2009 and 31 December 2008 were 30.48, 30.24 and 29.38 respectively. The average RUB/USD rates for the years were 31.73, 24.84 and 24.64, respectively.

**Sensitivity analysis**

A 20% strengthening of the RUB against the USD at 31 December 2010, 31 December 2009 and 31 December 2008 would have increased equity and profit by RUB 2,568 million, RUB 2,834 million and RUB 4,102 million respectively. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2009 and for 2008.

A 20% weakening of the RUB against the above currencies at 31 December 2010, 31 December 2009 and 31 December 2008 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

**(ii) Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	<b>Carrying amount</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
<b>Fixed rate instruments</b>			
Financial assets	1,013	2,371	6,738
Financial liabilities	(43,977)	(38,290)	(40,135)
	<b>(42,964)</b>	<b>(35,919)</b>	<b>(33,397)</b>

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

**(e) Fair values versus carrying amounts**

At 31 December 2010, 31 December 2009 and 31 December 2008, the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

mln RUB	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Loans and receivables	9,818	9,818	9,394	9,242	14,956	14,931
Cash and cash equivalents	4,350	4,350	3,417	3,417	3,153	3,153
Financial liabilities measured at amortised cost	43,977	43,530	38,290	35,635	40,135	39,128
	<b>58,145</b>	<b>57,698</b>	<b>51,101</b>	<b>48,294</b>	<b>58,244</b>	<b>57,212</b>

**(f) Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board of Directors monitors the level of dividends to ordinary shareholders, makes decisions regarding selling assets to reduce the debt.

The Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 35.

During 2008, 2009 and 2010 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.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**30 Commitments**

**(a) Commitments under co-investment and construction services contracts**

During 2008-2010 the Group entered into a number of co-investment contracts and estimated the total cash outflow for each individual project. Under these projects payments have not been made in full by individuals. Therefore, the Group has contractual obligations to complete the buildings within normal operating cycle of development. As at 31 December 2010 commitments under these contracts totalled approximately RUB 60,118 million (2009: RUB 56,576 million; 2008: RUB 50,412 million). These payments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

**(b) Commitments to acquire property, plant and equipment**

At 31 December 2010, 2009 and 2008 the Group had no contractual commitments to acquire property, plant and equipment.

**31 Contingencies**

**(a) Insurance**

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured certain professional risks in relation to quality of construction works. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

The Group does not have insurance in respect of any force majeure circumstances, which may arise in relation to constructed buildings in the period after the sales have been recognised until the time when ownership rights are registered with the customer. The risk of damage in case of force majeure circumstances in these periods of time is borne by the Group.

Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets and other circumstances could have a material adverse effect on the Group's operations and financial position.

**(b) Litigation**

The Group is involved in various claims and legal proceedings relating to supply and service contracts. The amount of RUB 2,050 million related to accounts payable claimed at court at the end of the 2010 (2009: RUB 1,507 million; 2008: RUB 1,526 million). This amount was included in accounts payable as at 31 December 2010. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operations, since the amounts are included in the balance of accounts payable at period ends.

In addition, the Group is a plaintiff on several litigations for the total amount of RUB 1,939 million where management does not believe that it is possible that economic outflow will be required to settle these obligations. And therefore the amount has not been provided for.

**(c) Taxation contingencies**

*Taxation system*

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

*Tax compliance of the Group's suppliers*

The Group entered into transactions with various suppliers in which it did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing tax authorities' practice, if these entities' tax compliance is challenged by the tax authorities as not being in full conformity with the applicable tax legislation, this may result in additional tax risks for the Group. Should these suppliers be successfully challenged, the Group may become liable to additional tax payments, although management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments. Management of the Group believes that it is not practicable to estimate the financial effect of potential tax liabilities, which ultimately could be imposed on the Group

due to transactions with suppliers. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

If the cases described above were successfully challenged by the Russian tax authorities, the additional payments could become due together with penalties, ranging from 20% - 40% of the amount of underpaid taxes, and late-payment interest. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

*Tax implications of interest expense deductions*

In 2009 and 2010 one of the Group's subsidiaries deducted interest expense related to loans provided by the Parent Company based on Management's interpretation of the Tax Code. Should the tax authorities successfully challenge the Group's tax position as not being in full conformity with applicable tax legislation, additional tax charges of RUB 1,547 million may be levied to the Group. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

As at 31 December 2010, other contingent liabilities related to taxation amounted to approximately RUB 600 million.

**(d) Warranties and guarantees for work performed**

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is sold, which, in accordance with applicable law, is a period of up to three years from the date of the sale. Based upon prior experience with warranty claims, which have not been significant, no liabilities have been recognised in the consolidated financial statements in relation to warranties and guarantees for work performed.

**32 Related party transactions**

**(a) Control relationships**

As at 31 December 2008 the Company was ultimately controlled by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the "Founding Shareholders") who collectively owned 74% of the voting shares of the Company through Cyprus based shareholder structures.

In April 2009, L acero Trading Limited, ultimately controlled by the Nafta Moskva Group, acquired a 25% stake in the Company from its Founding Shareholders. As at 31 December 2009 and 2010 there were no immediate or ultimate parent companies of the Group.

In May 2009 the Group provided a guarantee to a bank in relation to the bank loan of USD 75 million received by a related party participated as co-investor in Park City. The facility is used to finance predevelopment of the project. The loan bears variable interest rate of 14 % and matures in 2011. The guarantee was granted at nil consideration.

**(i) Management remuneration**

Key management received the following remuneration during the year, which is included in personnel costs:

	<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
Salaries and bonuses	100	543	403
Contributions to State Pension Fund	1	7	8
	101	550	411



**(b) Transactions with other related parties**

The Group's other related party transactions, which are with entities controlled by the Founding shareholders of the Group, are disclosed below.

	<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
<i>Sales to related parties</i>			
Sales of apartments to executive directors	-	60	-
Sales of apartments to an insurance company controlled by Founding Shareholders	-	116	-
Sales of assets to a related party controlled by Founding Shareholders (refer note 11(b))	-	660	-
Interest income accrued on a loan receivable from the party related to Founding Shareholder	172	142	128
	<b>172</b>	<b>978</b>	<b>128</b>
<i>Purchases from related parties</i>			
Purchase of mortgage loan portfolio from a bank controlled by Founding Shareholders	-	-	2,376
Payments under property insurance contracts to an insurance company controlled by Founding Shareholders	20	47	23
	<b>20</b>	<b>47</b>	<b>2,399</b>

**(c) Related party balances**

	<b>2010</b> <b>mln RUB</b>	<b>2009</b> <b>mln RUB</b>	<b>2008</b> <b>mln RUB</b>
Loans receivable (15% per annum) from executive director	-	15	15
Loan receivable from the party related to Founding Shareholder (refer note 21)	580	951	1,195
Loans issued to an equity accounted investee, net of impairment	-	488	342
Accounts receivable under sale of shares of a related party bank controlled by Founding Shareholders	-	11	464
Cash and cash equivalents at related party bank controlled by Founding Shareholders	-	1,369	2,149
Accounts receivable under co-investment agreements with a related party controlled by Founding Shareholders	381	-	-
	<b>961</b>	<b>2,834</b>	<b>4,165</b>
Accounts payable under construction contact with an equity accounted investee	1,207	909	2,839
Loans payable and promissory notes due to companies related to Shareholders	323	40	503
Accounts payable under co-investment agreements with a related party controlled by Founding Shareholders	94	-	-
Advances received under sales of apartments:			
<i>Executive directors</i>	-	30	-
<i>Insurance company related to Founding Shareholders</i>	-	67	-
	<b>1,624</b>	<b>1,046</b>	<b>3,342</b>

### 33 Significant subsidiaries

As of 31 December 2010 the Group controlled 120 legal entities (31 December 2009: 130; 31 December 2008: 170). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The following is a list of the most significant subsidiaries:

	Country of incorporation	Effective ownership			Voting rights		
		2010	2009	2008	2010	2009	2008
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%	100%	100%
OOO MFS-PIK	Russia	100%	100%	100%	100%	100%	100%
OAo DSK-2	Russia	98%	98%	98%	98%	98%	98%
OAo DSK-3	Russia	87%	87%	87%	87%	87%	87%
OOO PIK-Invest	Russia	100%	100%	100%	100%	100%	100%
Viniso Investments Limited	Cyprus	75%	75%	75%	75%	75%	75%
OAo 100 KGI	Russia	92%	92%	92%	92%	92%	92%
OAo 480 KGI	Russia	100%	100%	100%	100%	100%	100%
OOO PIK-Nerud	Russia	-%	-%	100%	-%	-%	100%
Sturm Properties Limited	Cyprus	-	54%	54%	-	54%	54%

### 34 Events subsequent to the reporting date

#### *Sale of 'Park city' project to a third party*

In January 2011 PIK has sold its 32.5% stake in ZAO Park City Investments and its subsidiaries for a total consideration of RUB 1,720 million.

#### *Receipt of funds from sale of development rights*

In June 2010 the Group entered into an agreement to sell development rights for ZAO Ochakovskiy ZhBK located in Moscow to a third party for a total consideration of RUB 2,157 million. The transaction is to be settled by installments. In 2010 PIK received RUB 1,492 million accounted for as advance received as at the balance sheet date. In 2011 further RUB 250 million were paid to the Group.

## 35 Supplementary information: non-IFRS measures

Net debt:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
Loans and borrowings, current	39,062	32,013	31,742
Plus: Loans and borrowings, non-current	4,916	6,277	8,393
Less: Cash and cash equivalents	(4,350)	(3,417)	(3,153)
	<b>39,628</b>	<b>34,873</b>	<b>36,982</b>

Earnings before interest, tax, depreciation and amortisation:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>mln RUB</b>	<b>mln RUB</b>	<b>mln RUB</b>
Loss for the year	(6,085)	(11,488)	(28,963)
Plus: Depreciation and amortisation	759	860	1,076
Plus: Interest expense and penalties payable	5,239	7,012	2,749
Less: Interest income	(325)	(400)	(481)
Less: Income tax (benefit) /expense	(2,051)	866	(1,343)
	<b>(2,463)</b>	<b>(3,150)</b>	<b>(26,962)</b>

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## **Independent Auditors' Report**

The Board of Directors

OOO Group of Companies PIK

We have audited the accompanying consolidated financial statements of OAO Group of Companies PIK (the "Company"), and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010, 31 December 2009 and 31 December 2008 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

*Basis for Qualified Opinion*

In 2009, the Group entered into a number of transactions with an entity for which indications exist that it may be a related party. Management has been unable to identify the beneficial owners of this entity to determine whether these transactions, comprising accrual of interest expense and related penalties of RUR 1,130 million, repayment of a loan of RUR 1,969 million and the sale of a subsidiary for a consideration of RUR 2,077 million, are related party transactions. It was impracticable to satisfy ourselves as to whether this entity is a related party. Accordingly, we were unable to determine whether the disclosure of related party transactions and outstanding balances as at and for the year ended 31 December 2009, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures*, is complete. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2009 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's disclosures and the corresponding disclosures.

*Opinion*

In our opinion, except for the possible omission of the disclosure described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 31 December 2009 and 31 December 2008 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

During the year the Group adjusted its previously issued consolidated financial statements. The reason for and the effects of these adjustments are described in Note 2(g) to the consolidated financial statements. We have audited the adjustments described in Note 2(g) that were applied to restate the prior years consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.



ZAO KPMG  
4 May 2011

**ANNEX B**

**Unaudited Consolidated Financial Statements**

**OAO Group of Companies PIK  
Consolidated Interim Condensed  
Financial Statements  
for the six-month period ended  
30 June 2011**

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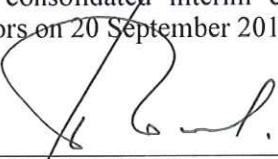
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## Consolidated Interim Condensed Statement of Financial Position

mln RUB	Note	30 June 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		9,576	9,452
Intangible assets		24,313	22,844
Other investments		145	2
Deferred tax assets		105	334
<b>Total non-current assets</b>		<b>34,139</b>	<b>32,632</b>
<b>Current assets</b>			
Inventories		76,888	67,634
Other investments		180	778
Income tax receivable		175	87
Trade and other receivables		10,845	11,877
Cash and cash equivalents		2,503	4,350
Assets classified as held for sale	9	4,767	4,803
<b>Total current assets</b>		<b>95,358</b>	<b>89,529</b>
<b>Total assets</b>		<b>129,497</b>	<b>122,161</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		30,843	30,843
Additional paid-in capital		20,082	20,082
Reserve resulting from additional share issue		(28,506)	(28,506)
Retained earnings		(21,578)	(24,759)
<b>Total equity attributable to equity holders of the Company</b>		<b>841</b>	<b>(2,340)</b>
Non-controlling interest		350	345
<b>Total equity</b>		<b>1,191</b>	<b>(1,995)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	17	28,937	4,916
Trade and other payables		78	20
Deferred tax liabilities		1,960	2,093
<b>Total non-current liabilities</b>		<b>30,975</b>	<b>7,029</b>
<b>Current liabilities</b>			
Loans and borrowings	17	16,095	39,062
Trade and other payables		56,509	53,451
Provisions	16	21,012	21,360
Income tax payable		219	423
Liabilities classified as held for sale	9	3,496	2,831
<b>Total current liabilities</b>		<b>97,331</b>	<b>117,127</b>
<b>Total liabilities</b>		<b>128,306</b>	<b>124,156</b>
<b>Total equity and liabilities</b>		<b>129,497</b>	<b>122,161</b>

These consolidated interim condensed financial statements were approved by the Board of Directors on 20 September 2011 and were signed on its behalf by:

  
 Pavel A. Poselenov  
 President

  
 Andrey M. Rodionov  
 Vice-President, Economics and Finance

## Consolidated Interim Condensed Statement of Comprehensive Income

<b>mln RUB</b>	<b>Note</b>	<b>Six-month period ended 30 June 2011</b>	<b>Six-month period ended 30 June 2010</b>
Revenue	10	22,794	15,126
Cost of sales		(19,060)	(15,170)
<b>Gross profit</b>		<b>3,734</b>	<b>(44)</b>
Distribution expenses		(301)	(222)
Administrative expenses		(1,913)	(1,780)
Impairment (losses) and reversal of impairment losses, net	14	1,710	(613)
Other income and expenses	15	543	79
Finance income	11	2,403	211
Finance costs	12	(2,160)	(4,283)
Share of loss of equity accounted investees, net of income tax		-	(33)
<b>Profit/(loss) before income tax</b>		<b>4,016</b>	<b>(6,685)</b>
Income tax (expense)/benefit	13	(830)	1,514
<b>Profit/(loss) and total comprehensive income for the period</b>		<b>3,186</b>	<b>(5,171)</b>
<i>Attributable to:</i>			
Owners of the Company		3,181	(5,131)
Non-controlling interests		5	(40)
<b>Total comprehensive income for the period</b>		<b>3,186</b>	<b>(5,171)</b>
Basic and diluted earnings/(loss) per share		6.45 RUB	(10.40) RUB

## Consolidated Interim Condensed Statement of Changes in Equity

mln RUB	Attributable to equity holders of the Company				Total	Non-	Total
	Share capital	Additional paid-in- capital	Reserve resulting from additional share issue	Retained earnings		controlling interest	
<b>Balance as at 1 January 2010</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	<b>(17,294)</b>	<b>5,125</b>	<b>555</b>	<b>5,680</b>
Loss and total comprehensive income for the period	-	-	-	(5,131)	(5,131)	(40)	(5,171)
Transactions with owners, recorded directly in equity							
<i>Changes in ownership interests in subsidiaries     that do not result in a loss of control</i>							
Change in non-controlling interests related to disposed subsidiary	-	-	-	-	-	(248)	(248)
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	6	6
Total transactions with owners	-	-	-	-	-	(242)	(242)
<b>Balance as at 30 June 2010</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	<b>(22,425)</b>	<b>(6)</b>	<b>273</b>	<b>267</b>
<b>Balance as at 1 January 2011</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	<b>(24,759)</b>	<b>(2,340)</b>	<b>345</b>	<b>(1,995)</b>
Profit and total comprehensive income for the period	-	-	-	3,181	3,181	5	3,186
<b>Balance as at 30 June 2011</b>	<b>30,843</b>	<b>20,082</b>	<b>(28,506)</b>	<b>(21,578)</b>	<b>841</b>	<b>350</b>	<b>1,191</b>

## Consolidated Interim Condensed Statement of Cash Flows

<b>mln RUB</b>	<b>Six-month period ended 30 June 2011</b>	<b>Six-month period ended 30 June 2010</b>
<b>OPERATING ACTIVITIES</b>		
<b>Profit/(loss) for the period</b>	<b>3,186</b>	<b>(5,171)</b>
<i>Adjustments for:</i>		
Depreciation and amortisation	339	383
Foreign exchange (gain)/loss, net	(894)	472
Loss/(gain) on disposal of property, plant and equipment	4	(6)
(Reversal of impairment loss)/impairment loss on non-current assets and inventory write downs	(1,710)	613
Share of loss of equity accounted investees, net of tax	-	33
Reversal of impairment/(impairment) of financial assets	(15)	528
Gain on disposal of a subsidiary	-	(331)
Interest expense, including penalties payable and reversal of penalties	789	3,283
Change in non-controlling interest in limited liability companies	59	-
Interest income	(115)	(211)
Income tax expense/(benefit)	830	(1,514)
<b>Operating profit/(loss) before changes in working capital and provisions</b>	<b>2,473</b>	<b>(1,921)</b>
Increase in inventories	(7,737)	(2,560)
Decrease/(increase) in trade and other receivables	448	(2,644)
Increase in trade and other payables	3,243	1,375
(Decrease)/increase in provisions	(348)	3,677
<b>Cash flows utilised in operations before income taxes and interest paid</b>	<b>(1,921)</b>	<b>(2,073)</b>
Income taxes paid	(1,027)	(32)
Interest paid	(2,626)	(1,852)
<b>Cash flows utilised by operating activities</b>	<b>(5,574)</b>	<b>(3,957)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	15	135
Interest received	-	14
Acquisition of property, plant and equipment	(181)	(81)
Acquisition of development rights and other intangible assets	(616)	-
Proceeds from sale of equity accounted investee	1,721	-
Loans advanced	(165)	(28)
Repayment of loans advanced	591	119
<b>Cash flows from investing activities</b>	<b>1,365</b>	<b>159</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	13,048	7,076
Repayment of borrowings	(10,686)	(4,728)
<b>Cash flows from financing activities</b>	<b>2,362</b>	<b>2,348</b>
Net decrease in cash and cash equivalents	(1,847)	(1,450)
Cash and cash equivalents at beginning of period	4,350	3,417
<b>Cash and cash equivalents at end of period</b>	<b>2,503</b>	<b>1,967</b>

## Notes to the Consolidated Interim Condensed Financial Statements

### 1 Reporting entity

ОАО Group of Companies PIK (the “Company”) is a company domiciled in the Russian Federation. The consolidated interim condensed financial statements of the Company as at and for the six-month period ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in equity accounted investees.

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available upon request from the Company’s registered office at 19 Barrikadnaya st., Moscow, 123001, Russian Federation or at [www.pik.ru](http://www.pik.ru).

### 2 Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

### 3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and its subsidiaries and the currency in which these consolidated interim condensed financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

### 4 Significant accounting policies

#### *Adoption of amended and revised IFRSs*

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2010, except that the Group has adopted those amended/revised standards mandatory for financial annual periods beginning on 1 January 2011.

<u>Standards</u>	<u>Effective for annual periods beginning on or after</u>
IAS 1 (Amended) <i>Presentation of Financial Statements</i>	1 January 2011
IAS 24 (Revised) <i>Related Party Disclosure</i>	1 January 2011
IAS 27 (Amended) <i>Consolidated and Separate Financial Statements</i>	1 July 2010
IAS 32 (Amended) <i>Financial instruments: Presentation</i>	1 February 2010
IAS 34 (Amended) <i>Interim Financial Reporting</i>	1 January 2011
IFRS 3 (Amended) <i>Business Combinations</i>	1 July 2010
IFRS 7 (Amended) <i>Financial Instruments: Disclosures</i>	1 January 2011

Amended IAS 1 *Presentation of Financial Statements* clarifies that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

Revised IAS 24 *Related Party Disclosures* provides a revised definition of a related party which includes new relationships. Revised IAS 24 became effective as at 1 January 2011 and requires retrospective application.

Amended IAS 27 *Consolidated and Separate Financial Statements* clarifies consequential amendments to other related International Financial Reporting Standards.

Amended IAS 32 *Financial Instruments: Presentation* incorporates changes in respect of the classification of rights issues and their accounting.

Amended IAS 34 *Interim Financial Reporting* provides additional examples to the list of events or transactions that require disclosure.

Amended IFRS 3 *Business Combinations* incorporates transitional requirements for contingent consideration from a business combination that occurred before the effective date of revised IFRS 3 and limited the accounting policy choice to measure non-controlling interest.

Amended IFRS 7 *Financial Instruments: Presentation* incorporates a number of clarifications to the existing disclosure requirements.

The above amendments and revisions did not have a significant effect on the Group's consolidated interim condensed financial statements.

#### ***New accounting pronouncements***

A number of new Standards and amendments to Standards were not yet effective for the six-month period ended June 2011, and have not been applied in these consolidated interim condensed financial statements.

<b>Standards</b>	<b>Effective for annual periods beginning on or after</b>
IAS 1 (Amended) <i>Presentation of Financial Statements</i>	1 July 2012
IAS 12 (Amended) <i>Income Taxes</i>	1 January 2012
IAS 27 (Amended) <i>Consolidated and Separate Financial Statements</i>	1 January 2013
IAS 28 (Amended) <i>Investments in Associates and Joint Ventures</i>	1 January 2013
IFRS 9 <i>Financial Instruments</i>	1 January 2013
IFRS 10 <i>Consolidated Financial Statements</i>	1 January 2013
IFRS 12 <i>Disclosure of Interests in other entities</i>	1 January 2013
IFRS 13 <i>Fair Value Measurement</i>	1 January 2013

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

Amended IAS 1 *Presentation of Financial Statements* requires a separate presentation of items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Amended IAS 1 will be effective for annual periods beginning on or after 1 July 2012 and requires retrospective application.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace

International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*.

The first and second phases of IFRS 9 *Financial Instruments* were finalised in November 2009 and October 2010, respectively, and relate to the recognition and measurement of financial assets and liabilities. The Group recognises that the new standard introduces many changes to the accounting for financial instruments. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued during 2011.

IFRS 13 *Fair Value Measurement* provides a revised definition of fair value, establishes a framework for measuring fair value and sets out expanded disclosure requirements for fair value measurements. IFRS 13 will be effective for annual periods beginning on or after 1 January 2013 and requires prospective application.

## **5 Estimates**

The preparation of consolidated interim condensed financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim condensed financial statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

During the six-month period ended 30 June 2011 Management reassessed its estimates with respect to non-financial assets and inventories (note 14).

## **6 Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2010.

## 7 Operating segments

### (i) Segment profit and losses

mln RUB	Real estate development		Construction segment		Industrial segment		Other		Total	
	Six-month period ended 30 June		Six-month period ended 30 June		Six-month period ended 30 June		Six-month period ended 30 June		Six-month period ended 30 June	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	17,323	9,700	2,027	2,800	947	605	1,456	1,280	21,753	14,385
Inter-segment revenue	-	-	7,651	7,942	1,155	1,179	944	805	9,750	9,926
Total revenue for reportable segments	17,323	9,700	9,678	10,742	2,102	1,784	2,400	2,085	31,503	24,311
Interest income	174	253	-	1	-	1	-	1	175	256
Interest expense	(2,283)	(2,364)	(21)	(27)	-	-	(86)	(47)	(2,390)	(2,438)
Depreciation and amortisation	19	176	88	87	76	57	119	63	302	383
Reportable segment profit/(loss) before income tax	3,273	(2,156)	(19)	(142)	(132)	(163)	(51)	33	3,071	(2,428)
Capital expenditure	51	11	99	58	16	3	15	8	181	80



(ii) **Reconciliations of reportable segment revenue and profit or loss**

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>mln RUB</b>	<b>mln RUB</b>
<b>Revenues</b>		
Total revenue for reportable segments	31,503	24,311
Revenue of entities not included in reportable segments	59	25
Elimination of inter-segment revenue	(9,750)	(9,926)
Other	982	716
Consolidated revenue	<b>22,794</b>	<b>15,126</b>
<b>Profit or loss</b>		
Segment profit/(loss) before income tax	3,071	(2,428)
Impairment of property, plant and equipment, intangible assets, inventories	1,710	(613)
Timing differences relating to recognition of costs	(1,535)	(3,193)
Long-term lease agreements termination	-	857
Provision for doubtful accounts and reversal of provision accrued in previous period	779	(528)
Penalties and fines	76	(919)
Other (expenses)/income	(85)	139
Consolidated profit/(loss) from continuing operations before income tax	<b>4,016</b>	<b>(6,685)</b>

(iii) **Geographical information**

The Real Estate Development, Construction, Industrial and Other segments are managed on a Russian basis, but operate in three principal geographical areas: Moscow, Moscow Region and other regions.

In presenting information on the basis of geographical information, revenue is based on the geographical location of development sites.

	<b>External revenues</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>mln RUB</b>	<b>mln RUB</b>
Moscow	11,188	7,567
Moscow Region	8,822	5,862
Other regions	1,743	956
	<b>21,753</b>	<b>14,385</b>

## 8 Seasonality of operations

Higher revenues in the construction industry in Russia are usually experienced in the second half of each year when construction works are completed and formally accepted by state commissions.

## 9 Assets held for sale

Mln RUB	2011	2010		
	ZAO Ochakovsky ZhBK	ZAO Ochakovsky ZhBK	Park-City Project	Total
Property, plant and equipment	19	17	-	17
Investments in equity accounted investees	-	-	1,752	1,752
Inventories	3,299	1,747	1,217	2,964
Trade and other receivables	831	70	-	70
Cash and cash equivalents	618	-	-	-
<b>Assets classified as held for sale</b>	<b>4,767</b>	<b>1,834</b>	<b>2,969</b>	<b>4,803</b>
Current liabilities	3,496	1,582	1,249	2,831
<b>Liabilities classified as held for sale</b>	<b>3,496</b>	<b>1,582</b>	<b>1,249</b>	<b>2,831</b>

## 10 Revenue

### Revenue from sales of apartments

	30 June 2011	30 June 2010
<b>Completion</b>		
- Buildings	22	9
- Saleable area, thousand square meters	256	129
- Underground garages	1	1
- Free standing garages	3	-
- Sellable parking spaces	1,371	109
<b>Sale of premises</b>		
- Premises sold in buildings completed in current period, thousand square meters	185	109
- Premises sold in buildings completed in prior periods, thousand square meters	75	43
	<b>260</b>	<b>152</b>
Parking spaces sold in buildings completed in current period	442	74

In 2010 and 2011 the Group initiated a series of transactions with the Group's suppliers aimed at settling the balances of trade payables with apartments. During the six-month period ended 30 June 2011 revenue from sale of apartments in exchange for goods and services received amounted to RUB 2,739 million (2010: RUB 1,755 million).

### Sale of construction services

Construction services in the amount of RUB 2,149 million (2010: RUB 3,159 million) were provided to developers of buildings where the Group participates as a constructor.

## 11 Finance income

mln RUB	<u>30 June 2011</u>	<u>30 June 2010</u>
Reversal of bank penalties	1,312	-
Foreign exchange gains	894	-
Interest income	115	211
Reversal of impairment of financial assets	15	-
Other financial income	67	-
	<u>2,403</u>	<u>211</u>

## 12 Finance costs

mln RUB	<u>30 June 2011</u>	<u>30 June 2010</u>
Interest expense	1,963	2,103
Penalties for late repayment of loans	138	1,180
Change in non-controlling interest in limited liability companies	59	-
Foreign exchange losses	-	472
Losses on impairment of financial assets	-	528
	<u>2,160</u>	<u>4,283</u>

In addition to the borrowing costs recognized in profit or loss, borrowing costs of RUB 641 million (2010: RUB 86 million) were capitalized as part of inventory.

## 13 Income tax (expense)/benefit

Income tax expense is recognised based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to pre tax income of the interim period.

mln RUB	<u>30 June 2011</u>	<u>30 June 2010</u>
<i>Current tax benefit</i>		
Current year	(674)	(292)
Adjustment to prior year taxable income recognized in current period	-	1,344
Tax provision recognized	(60)	(503)
	<u>(734)</u>	<u>549</u>
<i>Deferred tax credit</i>		
Origination and reversal of temporary differences	(96)	965
	<u>(830)</u>	<u>1,514</u>

## 14 Impairment losses and reversal of impairment on non-financial assets

During the six-month period ended 30 June 2011 the Group reversed impairment losses and recognized additional impairment losses in respect of the following non-financial assets primarily as a result of revisions to the time schedules of construction projects, plant utilisation capacity and changes in real estate market prices.

mln RUB	30 June 2011	30 June 2010
<i>Impairment loss recognized in respect of:</i>		
Property, plant and equipment	(117)	(242)
Development rights and equity accounted investees	(53)	(2,860)
Write-down of inventory	(188)	(738)
	<u>(358)</u>	<u>(3,840)</u>
<i>Reversal of impairment loss and write-down of inventory:</i>		
Property, plant and equipment	495	-
Development rights	1,278	1,664
Inventory	295	1,563
	<u>2,068</u>	<u>3,227</u>
<b>Impairment losses and reversal of impairment loss, net</b>	<b><u>1,710</u></b>	<b><u>(613)</u></b>

## 15 Other income and expenses

	2011 mln RUB	2010 mln RUB
Effect of termination long-term land lease agreements	-	857
Gain on disposal of subsidiaries	-	331
Penalties and fines, including reversals	584	(1,039)
Other income and expenses, net	(41)	(70)
	<u>543</u>	<u>79</u>

During the six-month period ended 30 June 2011 the Group reversed penalties and fines accrued in previous period on the amount of RUB 862 million in respect of wholesale contracts with local authorities.

## 16 Provisions

	2011 mln RUB	2010 mln RUB
Provision for costs to complete	19,134	19,622
Tax provision	1,878	1,738
	<u>21,012</u>	<u>21,360</u>

## 17 Loans and borrowings

mln RUB	30 June 2011			
	Total	Overdue	Under 1 year	1 - 5 years
<b>Secured bank loans</b>				
RUB - fixed at 11.6-14%	37,632	-	8,539	28,743
RUB - fixed at 12%-14%, repayable on demand	1,196	-	1,196	-
RUB – variable at Central Bank of Russia refinancing rate + 4%	-	-	350	-
USD - fixed at 10-11%	278	-	185	93
USD - fixed at 10%, repayable on demand	3,740	-	3,740	-
<b>Unsecured bank loans</b>				
USD - fixed at 15% - 16%	82	-	82	-
<b>Unsecured loans from third parties</b>				
RUB - fixed at 0%	66	57	9	-
RUB - fixed at 0.1% - 10%	143	17	102	24
RUB - fixed at 10.1% - 18%	404	1	326	77
USD - fixed at 3% - 12%	58	-	58	-
<b>Unsecured loans from related parties</b>				
RUB - fixed at 12%	323	-	323	-
<b>Interest payable</b>	1,110	-	1,110	-
	<b>45,032</b>	<b>75</b>	<b>16,020</b>	<b>28,937</b>

### 31 December 2010

mln RUB	Total	Overdue	Under 1 year	1 - 5 years
<b>Secured bank loans</b>				
RUB - fixed at 11.6-14%	4,955	-	1,900	3,055
RUB - fixed at 12-16%, payable on demand	22,903	-	22,903	-
USD - fixed at 10-15%	6,725	6,086	377	262
USD - fixed at 10.3 payable on demand	4,417	-	4,417	-
<b>Unsecured loans from third parties</b>				
RUB - fixed at 0%	56	56	-	-
RUB - fixed at 0.1% - 10%	98	38	41	19
RUB - fixed at 10.1% - 16%	2,021	10	431	1,580
USD - fixed at 3-12%	66	8	58	-
<b>Unsecured loans from related parties</b>				
RUB - fixed at 12%	323	-	323	-
<b>Interest payable</b>	1,132	-	1,132	-
<b>Penalties payable</b>	1,282	-	1,282	-
	<b>43,978</b>	<b>6,198</b>	<b>32,864</b>	<b>4,916</b>

At 30 June 2011 the following assets secured bank loans:

- property, plant and equipment with a carrying value of RUB 3,630 million (2010: RUB 3,617 million);
- development rights with a carrying value of RUB 1,652 million (2010: RUB 972 million);
- residential and commercial property under construction with a total saleable area of 83 thousand square meters and with a carrying value of RUB 4,343 million in Moscow and

the Moscow Region (31 December 2010: 215 thousand square meters and with a carrying value of RUB 10,967 million);

- shares of the following subsidiaries which comprise a substantial part of the Group:

	2011		2010	
	Number of shares	% of share capital	Number of shares	% of share capital
OAo DSK-2	51,950,334	98	51,950,334	98
OAo DSK-3	1,747,081	81	1,747,081	81
OAo 480 KGI	1,556,430	100	1,556,430	100
OAo KHZ	1,454,600	92	1,454,600	92
OAo 160 DSK	1,219,628	75	1,219,628	75
OAo Zavod Gazstroy mash	387,421	87	-	-
ZAO Pervaya Ipotecnaya Kompanya-Region (PIK-Region)	334,000	100	334,000	100
ZAO TP Red East	37,317	93	37,317	93
OAo KSRZ	48,170	100	-	-
OAo 100 KGI	10,016	77	10,016	77
ZAO Stroybusinesscenter	10,000	100	10,000	100
ZAO Podmoskovye 160 DSK	5,811	63	5,811	63
ZAO Monetchik	100	100	100	100
ZAO PIK Zapad	-	-	110	100
OOO NSS	-	100	-	100
OOO StroyInvest	-	100	-	100
OOO Semigor	-	-	-	100
OOO Status Land	-	100	-	100
OAo Waystone	-	100	-	-
OOO Kholdingovaya Kompanya Upravlenie Experimentalnoy Zastroyki Novokurkino	-	-	-	100

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, and cross-default provisions. Covenant breaches generally permit lenders to demand accelerated repayment of the principal and interest. As at 30 June 2011 the Group breached the following financial covenants in various loan agreements with the carrying value of RUB 4,936 million (2010: RUB 27,320 million): debt to EBITDA ratio, amounts payable under lawsuits against the Group. Management does not believe that early repayment of the loans will be requested. Amendments to the loans covenants are currently being considered by the lenders, and Management expects them to be approved in the near future.

In June 2011 the Group obtained a letter from its major creditor which confirmed that the bank does not intend to demand early repayment of loans totalling RUB 26,037 million as a consequence of the breach of covenants. These loans have been classified as non-current loans as at 30 June 2011.

## 18 Commitments

The Group entered into a number of co-investment contracts, where payments have not been made in full, and contracts to provide construction services. However, significant funds have been collected from individuals through pre-sale agreements to finance the projects. Therefore, the Group has contractual obligations to complete the buildings within its normal operating cycle. As at 30 June 2011 commitments under these contracts amounted to approximately RUB 51,675 million (31 December 2010: RUB 60,118 million). These

commitments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

## **19 Contingencies**

Except as described below, the contingencies of the Group related to insurance, warranties and taxation did not change significantly from the contingencies reported in the consolidated financial statements as at and for the year ended 31 December 2010.

### *Litigation*

The Group is defending itself in respect of various claims and legal proceedings related to supply and service contracts. The aggregate of these claims is RUB 2,765 million as at 30 June 2011 (31 December 2010: RUB 2,050 million). These amounts have been fully provided for as at 30 June 2011. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operations.

In addition, in 2008 the Group entered into an agreement to obtain the right to lease a land plot in Nizhny Novgorod from local authorities. In 2010 the lease agreement was terminated. The party to the lease agreement has challenged the Group's actions with respect to the termination of the contract. Should the Group fail to defend its position successfully in court, it would be required to pay RUB 1,200 million as the remaining payment under the agreement to the authorities. Management of the Group believes that it is possible, but not probable, that an outflow of economic resources would be required as a consequence of this claim since the position of the claimant lacks legal grounds.

### *Taxation contingencies*

In 2010 one of the Group's subsidiaries deducted interest expense related to loans provided by the Company based on Management's interpretation of the Tax Code. Should the tax authorities successfully challenge the Group's tax position as not being in full conformity with applicable tax legislation, additional tax charges of RUB 1,547 million may be levied to the Group. Management has not provided any amounts in respect of such obligations in these consolidated interim condensed financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

As at 30 June 2011, other contingent liabilities related to taxation amounted to approximately RUB 784 million.

## **20 Related party transactions**

### **(a) Control relationships**

As at 30 June 2010 and 2011 the Group did not have either an immediate or ultimate parent company.

As at 30 June 2011 the Nafta Moskva Group and its ultimate beneficial owner Mr. Suleiman Kerimov controlled approximately 38.3% of the Company's ordinary shares. The Nafta Moskva Group is the beneficial owner of Lacero Trading Ltd and Holborner Services Limited.

In addition, five out of nine members of the Board of Directors, including its Chairman, are officers and directors of the Nafta Moskva Group or its affiliates.

**(b) Transactions with management and close family members**

**(i) Management remuneration**

Key management received remuneration of RUB 71 million during the six-month period ended 30 June 2011 (2010: RUB 49 million) including contributions to the state pension fund.

**(ii) Other transactions**

As at 30 June 2011 trade payables include advances received from executive directors under agreements to acquire property under construction in the amount of RUB 29 million.

**(c) Transactions with other related parties**

During 2010 the Group's other related party transactions were with the entities controlled by the founding shareholders. On 21 June 2011 the founding shareholders ceased to have representatives on the Company's Board of Directors. As a result, transactions and balances with such entities are no longer disclosed as related party transactions.

<b>mln RUB</b>	<b>30 June 2011</b>	<b>30 June 2010</b>
<i>Purchases from related parties</i>		
Payments under property insurance contracts to an insurance company controlled by founding shareholders	29	23
	<b>29</b>	<b>23</b>

<b>mln RUB</b>	<b>30 June 2011</b>	<b>31 December 2010</b>
<i>Balances with related parties</i>		
Loan receivable from a party related to a founding shareholder	-	580
Loan receivable from a founding shareholder	-	15
Accounts receivable under co-investment agreements with a related party controlled by founding shareholders	-	381
	<b>-</b>	<b>976</b>
Loans payable and promissory notes due to companies related to shareholders	323	323
Accounts payable under co-investment agreements with a related party controlled by founding shareholders	-	94
	<b>-</b>	<b>417</b>

**21 Events subsequent to the reporting date**

*Receipt of waivers from creditors*

In September 2011, the Group received a waiver from one of its creditors, Rosbank. Given that the date of this waiver is subsequent to the reporting period, the loan was classified as a current liability as at 30 June 2011.

*Receipt of funds from sale of development rights*

In August 2011 the Group completed a transaction to sell ZAO Ochakovskiy ZhBK, which was accounted for as asset held for sale as at 30 June 2011. The Group expects that the gain



on disposal will approximate RUB 1,000 million and will be included in the Group's consolidated financial statements as at and for the year ending 31 December 2011.

*Refinancing of a major loan*

In September 2011, the Group attracted a new long-term loan amounting to RUB 1,200 million. The loan matures in 2013-2015. With the proceeds the Group fully repaid an outstanding loan, classified as a current liability as at 30 June 2011 in the amount of RUB 1,196 million.

*Introduction of a new staff motivation plan*

On 8 September 2011 the Board of Directors of the Group approved a new staff motivation plan, which includes provisions for base salary, annual bonus payment and long-term share based remuneration plan ('option plan'). Under the above option plan, ten key members of Group's management will receive an equivalent of up to eight times of their respective annual salaries as a remuneration in 2014-2015, 50% of which will be settled in shares and the remainder – in cash. The amount of remuneration will depend on the performance of the Group and individual performance of the directors.

*Insolvency claim*

On 5 September 2011, a bankruptcy claim was filed against the Company due to its failure to timely pay legal fees in the amount of RUB 0.2 million awarded by an arbitrazh court in connection with earlier court proceedings. We believe that the bankruptcy claim is without merit because the amount alleged to be payable by the Group has been paid in full to the claimant subsequent to the date of claim. As a result, the claimant has subsequently filed a motion with the court requesting a termination of the proceedings. The court has scheduled a hearing to review the motion on 27 September 2011.

The bankruptcy claim constituted, or could be viewed as, an event of default under some of the Group's credit facilities. As a result RUB 24,354 million of loans classified as non-current liabilities as at 30 June 2011 may be requested for accelerated repayment, and, accordingly, reclassified as current, payable on demand. In addition, RUB 7,039 million classified as current may be reclassified to current, payable on demand. Management believes that it is unlikely that such accelerated repayments will be requested by the banks as a result of the above claim.



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## **Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements**

The Board of Directors  
OAO Group of Companies PIK

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Group of Companies PIK and its subsidiaries (the "Group") as at 30 June 2011, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements 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 consolidated interim condensed financial statements as at 30 June 2011 and for the six-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*ZAO KPMG*

ZAO KPMG  
20 September 2011