OAO 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)
ASSETS				
Non-current assets				
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
Total non-current assets		**32,632**	**37,005**	**44,057**
Current assets				
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	-	-
Total current assets		**89,529**	**78,353**	**95,237**
Total assets		**122,161**	**115,358**	**139,294**
EQUITY AND LIABILITIES				
Equity	25			
Share capital		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)
Total equity attributable to equity holders of the Company		**(2,340)**	**3,788**	**14,889**
Non-controlling interest		345	555	978
Total equity		**(1,995)**	**4,343**	**15,867**
Non-current liabilities				
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
Total non-current liabilities		**7,029**	**12,200**	**15,038**
Current liabilities				
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	-	-
Total current liabilities		**117,127**	**98,815**	**108,389**
Total liabilities		**124,156**	**111,015**	**123,427**
Total equity and liabilities		**122,161**	**115,358**	**139,294**

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

The consolidated statements of financial position are to be read in conjunction with the notes to, and forming part of, the reissued consolidated financial statements set out on pages 7 to 65.

Consolidated Statements of Comprehensive Income

In million RUB	Note	2010	2009 (restated)	2008 (restated)
Revenue	8	38,090	41,175	33,695
Cost of sales	9	(35,598)	(33,218)	(25,271)
Gross profit		**2,492**	**7,957**	**8,424**
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)
Loss before income tax		**(8,136)**	**(11,815)**	**(30,391)**
Income tax benefit/(expense)	16	2,051	(866)	1,343
Loss from continuing operations		**(6,085)**	**(12,681)**	**(29,048)**
Profit from discontinued operations, net of tax	6	-	1,193	85
Loss and total comprehensive income for the year		**(6,085)**	**(11,488)**	**(28,963)**
Attributable to:				
Owners of the Company		(6,128)	(11,115)	(28,743)
Non-controlling interest		43	(373)	(220)
Total comprehensive loss for the year		**(6,085)**	**(11,488)**	**(28,963)**
Basic and diluted loss per share		(12.42) RUB	(22.6) RUB	(58.6) RUB
Continuing operations				
Basic and diluted loss per share		(12.16) RUB	(25.1) RUB	(58.8) RUB

The consolidated statements of comprehensive income are to be read in conjunction with the notes to, and forming part of, the reissued consolidated financial statements set out on pages 7 to 65.

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company						Non-controlling interest	Total equity
In million RUB	**Share capital**	**Additional paid-in-capital**	**Reserve resulting from additional share issue**	**Treasury shares**	**Retained earnings**	**Subtotal**		
At 1 January 2008, as previously reported	**30,843**	**19,401**	**(28,506)**	**-**	**27,335**	**49,073**	**1,266**	**50,339**
Adjustments 2(g)(ii)	**-**	**-**	**-**	**-**	**(3,309)**	**(3,309)**	**-**	**(3,309)**
At 1 January 2008 (restated)	**30,843**	**19,401**	**(28,506)**	**-**	**24,026**	**45,764**	**1,266**	**47,030**
Loss and total comprehensive income for the year, restated	-	-	-	-	(28,743)	(28,743)	(220)	(28,963)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
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)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
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)
At 31 December 2008 (restated)	**30,843**	**20,082**	**(28,506)**	**(2,428)**	**(5,102)**	**14,889**	**978**	**15,867**
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								
Contributions by and distributions to owners								
Transactions with shareholders, recorded directly in equity	-	-	-	-	(210)	(210)	-	(210)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
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)
At 31 December 2009 (restated)	**30,843**	**20,082**	**(28,506)**	**-**	**(18,631)**	**3,788**	**555**	**4,343**
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)
At 31 December 2010	**30,843**	**20,082**	**(28,506)**	**-**	**(24,759)**	**(2,340)**	**345**	**(1,995)**

The consolidated statements of changes in equity are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 65.

Consolidated Statements of Cash Flows

In million RUB	2010	2009 (restated)	2008 (restated)
OPERATING ACTIVITIES			
Loss for the year	**(6,085)**	**(11,488)**	**(28,963)**
Adjustments for:			
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)
Cash (used in) / from operating activities before changes in working capital and provisions	**(3,020)**	**4,292**	**2,836**
(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
Cash flows from operations before income taxes and interest paid	**360**	**5,390**	**12,707**
Income taxes paid	(1,099)	(218)	(925)
Interest paid	(4,077)	(3,984)	(3,611)
Net cash (used in)/from operating activities	**(4,816)**	**1,188**	**8,171**
INVESTING ACTIVITIES			
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)
Net cash from / (used in) investing activities	**1,434**	**(697)**	**(21,903)**
FINANCING ACTIVITIES			
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
Net cash from/(used in) financing activities	**4,315**	**(227)**	**(127)**
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
Cash and cash equivalents at end of year	**4,350**	**3,417**	**3,153**

The consolidated statements of cash flows are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 65.

1 Background

(a) Organisation and operations

OAO 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 depositary 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%
	100.00%	**100.00%**	**100.00%**

(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 1,907 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 :

	As reported	Adjustment	As restated
Retained earnings	27,335	(3,309)	24,026

As at and for the year ended 31 December 2008:

	As reported	Adjustment	As restated
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:

	As reported	Adjustment	As restated
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 an 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 an 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

	Real estate development			Construction segment			Industrial segment			Other			Total		
mln RUB	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
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.

	Revenues		
	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
Moscow	17,835	21,940	15,721
Moscow region	16,328	14,354	14,722
Other regions	3,773	5,608	3,971
	37,936	**41,902**	**34,414**

(iii) Reconciliations of reportable segment revenues and profit or loss

	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
Revenues			
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	**38,090**	**41,175**	**33,695**
Profit or loss			
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	**(8,136)**	**(11,815)**	**(30,391)**

(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:

In million RUB	**ZAO Ochakovsky ZhBK**	**Park-City Project**	**Total**
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
Assets classified as held for sale	**1,834**	**2,969**	**4,803**
Current liabilities	1,582	1,249	2,831
Liabilities classified as held for sale	**1,582**	**1,249**	**2,831**

(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.

	2009 mln RUB	**2008 mln RUB**
Results of discontinued operation		
Revenue	825	1,940
Expenses	(925)	(1,749)
Results from operating activities	(100)	191
Income tax expense	(20)	(106)
Results from operating activities, net of income tax	(120)	85
Gain on sale of discontinued operation	1,313	-
Profit for the year	1,193	85
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).

	2009 mln RUB	2008 mln RUB
Cash flows from/(used in) discontinued operation		
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	**(17)**	**14**

Effect of disposal on the financial position of the Group:

	Note	2009 mln RUB
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 note18(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:

	2009 mln RUB
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

	2010 mln RUB	2009 mln RUB	2008 mln RUB
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
	38,090	**41,175**	**33,695**

(a) Revenue from sale of apartments

	2010	2009	2008
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
	434	**492**	**378**
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

	31 December 2010 mln RUB
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

	2010 mln RUB	2009 mln RUB	2008 mln RUB
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
	35,598	**33,218**	**25,271**

10 Personnel costs

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Salaries and wages	4,094	4,466	6,837
Social charges	616	664	1,001
	4,710	**5,130**	**7,838**

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:

In million RUB	**OOO Rostov-kapstroy**	**Moreliabay Investments Ltd.**	**OOO Lasteya Art**	**Land plot in Saint Petersburg**	**Avtorita Holdings Ltd.**	**Others**	**Total**
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
Net identifiable assets	**(69)**	**(1,117)**	**(404)**	**(2,055)**	**(216)**	**(115)**	**(3,976)**
Consideration received/receivable	151	0.04	274	2,164	0.04	115	2,704
Net gain/(loss) on disposal	**82**	**(1,117)**	**(130)**	**109**	**(216)**	**-**	**(1,272)**

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

	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
Salaries and wages	215	185	167
Advertising expenses	154	152	674
Other	119	140	133
	488	**477**	**974**

13 Administrative expenses

	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
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
	3,372	**3,890**	**5,540**

14 Finance income and costs

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Finance income			
Interest income	325	400	481
Other financial income	-	371	-
	325	**771**	**481**
Finance costs			
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)
	(5,930)	**(9,801)**	**(8,379)**

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

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Other income and expenses, net			
Effect of termination long-term land lease agreements	2,032	-	-
Penalties and fines	(2,191)	(238)	(106)
Other income and expenses	(214)	(153)	(194)
	(373)	**(391)**	**(300)**

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:

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Current tax expense			
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)
	(877)	(1,142)	(575)
Deferred tax credit/(expense)			
Origination and reversal of temporary differences	2,928	276	912
Effect of change in the tax rate	-	-	1,006
	2,928	276	1,918
	2,051	**(866)**	**1,343**

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:

	2010 mln RUB	%	2009 mln RUB	%	2008 mln RUB	%
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
	2,051	**25**	**(866)**	**7**	**1,343**	**4**

17 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
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
Accumulated depreciation and impairment losses					
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)
Net book value					
At 1 January 2008	**6,688**	**2,906**	**1,582**	**1,380**	**12,556**
At 31 December 2008	**6,656**	**2,471**	**1,712**	**2,001**	**12,840**
At 31 December 2009	**7,718**	**1,634**	**687**	**351**	**10,390**
At 31 December 2010	**7,372**	**1,239**	**481**	**360**	**9,452**

(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**
Cost				
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
Accumulated amortisation and impairment losses				
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)
Net book value				
At 1 January 2008	**3,007**	**17,786**	**420**	**21,213**
At 31 December 2008	**-**	**27,243**	**212**	**27,455**
At 31 December 2009	**-**	**21,901**	**171**	**22,072**
At 31 December 2010	**-**	**22,738**	**106**	**22,844**

(a) Goodwill

At 31 December 2008 the aggregate carrying amounts of goodwill allocated to respective production plants or development companies were as follows:

	2008 mln RUB
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:

Subsidiary	Location of land plot	2010 mln RUB	2009 mln RUB	2008 mln RUB
OAO Krasnopresnensky Sakharorafinadny Zavod	Moscow, Center (KSRZ)	8,339	8,071	8,071
OOO Status Land	Moscow region, South-West, Kommunarka	9,035	8,985	8,952
OAO Kuskovskiy Khimicheskiy Zavod	Moscow, South-East (KHZ)	5,167	5,154	5,226
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 Gazstroymash	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 StroyKonstrukciya 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)	-	-	3,067
ZAO Neva Invest	Saint Petersburg, Vasilevskiy Ostrov	-	-	2,069
Others entities		1,470	2,353	2,258
		38,450	**39,028**	**42,490**
Less provision for impairment		(15,712)	(17,127)	(15,247)
		22,738	**21,901**	**27,243**

(*) 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
Acquisitions in 2008						
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	St-Petersburg	Jul-2008	20%	0.2	Residential	2,069
OOO 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	Apr-2008	100%	0.05	Commercial	521
	Other land plots					1,177
						25,497
Acquisitions in 2009						
OOO Mayak (**)	Moscow, South-west, Kievskoe	Mar-2009	100%	0.2	Commercial	832
	Other land plots					1,175
						2,007

(*) 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:

	Country	Voting and effective	2009 mln RUB	2008 mln RUB
ZAO Park-City Investments/ OOO KRPT (Project Park City)	Russia	33%/25%	3,460	3,522
			3,460	**3,522**

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 (2008: 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

		31 December 2010			**31 December 2009**			**31 December 2008**		
		Carrying value	Impair-ment / write down	Balance after impairment	Carrying value	Impair-ment / write down	Balance after impair-ment	Carrying value	Impair-ment / write down	Balance after impair-ment
	Note	**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
		119,794	**(19,970)**	**99,824**	**124,726**	**(25,090)**	**99,636**	**73,584**	**(24,028)**	**49,556**

(f) Impairment losses and reversals of impairment

	Note	2010 mln RUB	2009 mln RUB	2008 mln RUB
Impairment losses and write downs				
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)
		(6,604)	**(5,516)**	**(24,028)**
Reversal of impairment				
Reversals				
Property, plant and equipment		192	-	-
Development rights	18	3,598	845	-
Inventory	23	1,708	-	-
		5,498	**845**	**-**
		(1,106)	**(4,671)**	**(24,028)**

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	2010 mln RUB	2009 mln RUB	2008 mln RUB
Derecognitions related to disposals				
Property, plant and equipment reverse due to the disposal		101	-	-
Promote and development fees		318	-	-
Development rights		573	315	-
Inventory	23	2,371	-	-
		3,363	**315**	**-**

21 Other investments

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Non-current			
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
	265	1,475	343
Less provision	(263)	(478)	(174)
	2	**997**	**169**

Current	2010 mln RUB	2009 mln RUB	2008 mln RUB
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
	924	1,078	6,576
Less provision	(146)	(206)	(2,353)
	778	**872**	**4,223**

22 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

mln RUB	Assets			Liabilities			Net		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
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
Tax assets/(liabilities)	2,249	3,079	3,176	(4,008)	(7,788)	(8,177)	(1,759)	(4,709)	(5,001)
Set off of tax	(1,915)	(2,993)	(3,105)	1,915	2,993	3,105	-	-	-
Net tax assets/(liabilities)	334	86	71	(2,093)	(4,795)	(5,072)	(1,759)	(4,709)	(5,001)

(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 unrecognized 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
	(4,709)	**2,928**	**22**	**(1,759)**

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
	(5,001)	**276**	**16**	**(4,709)**

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
	(6,896)	**912**	**(23)**	**1,006**	**(5,001)**

23 Inventories

	2010 mln RUB	2009 mln RUB	2008 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
	67,634	**63,379**	**73,218**
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

	2010 mln RUB	2009 mln RUB	2008 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
	11,877	**10,598**	**14,124**
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	Ordinary shares 2010	Ordinary shares 2009	Ordinary shares 2008
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	-
On issue at end of year, fully paid	**493,260,384**	**493,260,384**	**489,970,384**

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:

In thousands of shares	2010	2009	2008
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	**493,260**	**490,793**	**490,244**

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.

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Non-current			
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
	4,916	**6,277**	**8,393**
Current			
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	-
	39,062	**32,013**	**31,742**
	43,978	**38,290**	**40,135**

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**
Secured bank loans				
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	-
Unsecured loans from third parties			-	-
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	-
Unsecured loans from related parties				
RUB - fixed at 12%	323	-	323	-
Interest payable	1,132	-	1,132	-
Penalties payable	1,282	-	1,282	-
	43,978	**6,199**	**32,863**	**4,916**

31 December 2009

mln RUB	**Total**	**Overdue**	**Under 1 year**	**1 - 5 years**
Secured bank loans				
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
Unsecured bank loans				
RUB - fixed at 14%	1,900	-	-	1,900
USD - fixed at 10.8% - 18%	3,024	3,024	-	-
Unsecured loans from third parties				
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	-
	38,290	**13,915**	**18,098**	**6,277**

31 December 2008

mln RUB	**Total**	**Under 1 year**	**1 - 5 years**
Secured bank loans			
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
Unsecured bank loans			
RUB - fixed at 9% - 12%	4,366	4,366	-
USD - fixed at 5% - 12%	3,378	3,378	-
Secured loans from third parties			
RUB - fixed at 12%	866	866	-
Unsecured loans from third parties			
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
Unsecured loans from related parties			
RUB - fixed at 0%	169	169	-
USD - fixed at 10%	294	294	-
Interest payable	260	260	
Finance lease liabilities (RUB)	87	76	11
	40,135	**31,742**	**8,393**

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 mln RUB	2009 mln RUB	2008 mln RUB
Non-current			
Accounts payable for construction works and other trade payables	-	1,117	1,419
Other liabilities	20	11	108
	20	**1,128**	**1,527**
Current			
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
	53,451	**51,415**	**64,243**

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 29.

28 Provisions

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Site restoration provision	-	-	77
Provision for cost to complete	19,622	13,526	11,384
Tax provision	1,738	609	817
	21,360	**14,135**	**12,278**

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.

mln RUB	**Provision for costs to complete**	**Provision for tax**	**Total**
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)
As at 31 December 2010	**19,622**	**1,738**	**21,360**

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:

	Carrying amount		
mln RUB	**2010**	**2009**	**2008**
Loans and receivables	10,051	9,896	17,309
Cash and cash equivalents	4,350	3,417	3,153
	14,401	**13,313**	**20,462**

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:

	Carrying amount		
mln RUB	**2010**	**2009**	**2008**
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
	7,785	**6,996**	**8,572**

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:

mln RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
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)
	8,798	**(1,811)**	**9,367**	**(2,114)**	**15,310**	**(2,815)**

The movement in the allowance for impairment in respect of trade receivables and loans receivable during the year was as follows:

mln RUB	2010	2009	2008
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	**1,811**	**2,114**	**2,815**

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	**Average interest rate**							
mln RUB	**Contrac-tual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
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
			60,788	**763**	**4,573**	**1,307**	**-**	**67,431**

2009	**Average interest rate**							
mln RUB	**Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
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
			44,231	**8,392**	**5,264**	**714**	**3,449**	**62,050**

2008	**Average interest rate**							
mln RUB	**Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
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
			46,614	**10,743**	**7,785**	**3,556**	**-**	**68,698**

(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-denominated 2010**	**USD-denominated 2009**	**USD-Denominated 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)
	(12,678)	**(14,042)**	**(20,509)**

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:

	Carrying amount		
	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
Fixed rate instruments			
Financial assets	1,013	2,371	6,738
Financial liabilities	(43,977)	(38,290)	(40,135)
	(42,964)	**(35,919)**	**(33,397)**

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
	58,145	**57,698**	**51,101**	**48,294**	**58,244**	**57,212**

(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, Lacero 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:

	2010 mln RUB	2009 mln RUB	2008 mln RUB
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.

	2010 mln RUB	2009 mln RUB	2008 mln RUB
Sales to related parties			
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
	172	**978**	**128**
Purchases from related parties			
Purchase of mortgage loan portfolio from a bank controlled by Founding Shareholders	-	-	2,376
Payments under property insurance contacts to an insurance company controlled by Founding Shareholders	20	47	23
	20	**47**	**2,399**

(c) Related party balances

	2010 mln RUB	2009 mln RUB	2008 mln RUB
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	-	-
	961	**2,834**	**4,165**
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:			
Executive directors	-	30	-
Insurance company related to Founding Shareholders	-	67	-
	1,624	**1,046**	**3,342**

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:

		Effective ownership			**Voting rights**		
	Country of incorporation	**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:

	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
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)
	39,628	**34,873**	**36,982**

Earnings before interest, tax, depreciation and amortisation:

	2010 mln RUB	**2009 mln RUB**	**2008 mln RUB**
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)
	(2,463)	**(3,150)**	**(26,962)**

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Independent Auditors' Report

The Board of Directors

OAO 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 statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 audit. We conducted our audit 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, namely the accrual of interest expense and related penalties of RUR 1,130 million, the 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 or not 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.

Qualified Opinion

In our opinion, except for the possible effects of the omission of the disclosure of the information that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as 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, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

During the year the Group adjusted its previously issued financial statements. The reason for and the effects of these changes 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 and the statement of financial position as at 1 January 2008. In our opinion, such adjustments are appropriate and have been properly applied.

ZAO KPMG

ZAO KPMG
4 May 2011

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG