OAO Group of Companies PIK
Consolidated Financial Statements
for the year ended
31 December 2008

Contents

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Independent Auditors' Report

The Board of Directors
OAO Group of Companies PIK

Report on the Consolidated Financial Statements

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 balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(d), which describes that the Group incurred a net loss of RUR 28,181 million for the year ended 31 December 2008 and, as at that date, its current liabilities exceeded its current assets by RUR 7,998 million. These conditions, along with other matters described in Note 2(d), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

ZAO KPMG

ZAO KPMG
7 May 2009

	Note	2008 mln RUR	2007 *Restated* mln RUR
Revenue	7	35,635	59,149
Cost of sales	8	(26,416)	(41,305)
Gross profit		9,219	17,844
Gain on disposal of development rights	10		9,502
Distribution expenses	11	(1,166)	(879)
Administrative expenses	12	(5,977)	(3,114)
Impairment losses on non-financial assets and inventory write down	18	(24,028)	(55)
Finance income	13	481	569
Finance expenses	13	(7,806)	(2,363)
Share of income/(loss) of equity accounted investees, net of income tax		(75)	(24)
(Loss)/profit before income tax		(29,352)	21,480
Income tax credit/(expense)	14	1,171	(3,595)
(Loss)/profit for the year		(28,181)	17,885
Attributable to:			
(Loss)/profit attributable to shareholders of the Company		(27,961)	17,854
(Loss)/profit attributable to minority interest		(220)	31
		(28,181)	17,885
Basic and diluted (loss)/earnings per share	24(e)	(57.0) RUR	37.4 RUR

These consolidated financial statements were approved on 7 May 2009 and were signed by:

Kirill V. Pisarev
President

Anna A. Kolonchina
Vice-President, Economics and Finance

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 60.

	Note	2008 mln RUR	2007 mln RUR
ASSETS			
Non-current assets			
Property, plant and equipment	15	12,840	12,556
Intangible assets	16	27,455	21,213
Investments in equity accounted investees	17	3,501	3,419
Other investments	19	169	295
Deferred tax assets	20	71	112
Other non-current assets		21	131
Total non-current assets		**44,057**	**37,726**
Current assets			
Inventories	21	76,251	49,801
Other investments	19	4,223	3,376
Income tax receivable		519	227
Trade and other receivables	22	14,124	18,096
Cash and cash equivalents	23	3,153	17,056
Total current assets		**98,270**	**88,556**
Total assets		**142,327**	**126,282**
EQUITY AND LIABILITIES			
Equity	24		
Share capital		30,843	30,843
Additional paid-in capital		20,082	19,401
Treasury shares		(2,428)	-
Reserve resulting from additional share issue		(28,506)	(28,506)
Retained earnings		(1,011)	27,335
Total equity attributable to shareholders of the Company		**18,980**	**49,073**
Minority interest		978	1,266
Total equity		**19,958**	**50,339**
Non-current liabilities			
Loans and borrowings	25	8,393	10,460
Trade and other payables	26	1,527	1,564
Provisions	27	46	68
Deferred tax liabilities	20	6,135	8,006
Total non-current liabilities		**16,101**	**20,098**
Current liabilities			
Loans and borrowings	25	31,742	24,180
Trade and other payables	26	73,506	30,671
Provisions	27	894	891
Income tax payable		126	103
Total current liabilities		**106,268**	**55,845**
Total liabilities		**122,369**	**75,943**
Total equity and liabilities		**142,327**	**126,282**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 60.

	2008 mln RUR	2007 mln RUR
OPERATING ACTIVITIES		
(Loss)/profit for the year	**(28,181)**	**17,885**
Adjustments for:		
Depreciation and amortisation	1,076	777
Impairment losses	24,028	-
Foreign exchange loss, net	2,941	300
Loss on disposal of property, plant and equipment	80	225
Provision for investments and receivables	2,421	-
Gain on disposals of development rights	-	(9,502)
Gain on disposal of available-for-sale financial assets	-	(229)
Negative goodwill on acquisition of subsidiaries and minority interests	-	28
Share of loss of equity accounted investees	75	24
Interest expense	2,303	2,063
Interest income	(481)	(340)
Income tax (benefit)/expense	(1,171)	3,595
Operating profit before changes in working capital and provisions	**3,091**	**14,826**
Increase in inventories	(28,338)	(8,651)
Decrease/(increase) in trade and other receivables	2,508	(10,805)
Increase in trade and other payables	35,022	5,016
Decrease in provisions	(22)	(4)
Cash flows from operations before income taxes and interest paid	**12,261**	**382**
Income taxes paid	(925)	(709)
Interest paid	(3,165)	(2,646)
Cash flows from/(utilised by) operating activities	**8,171**	**(2,973)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	522	28
Acquisition of other investments	(40)	-
Interest received	331	315
Acquisition of property, plant and equipment	(3,650)	(3,623)
Acquisition of development rights and other intangible assets	(17,657)	(16,183)
Acquisition of minority interests	(374)	(15)
Loans issued	(3,084)	(8,861)
Proceeds from sale of minority interests and development rights	1,047	10,745
Consideration paid to acquire mortgage loans from related party bank	(2,380)	-
Repayment of mortgage loans	1,569	-
Repayment of loans issued	1,439	6,809
Acquisition of subsidiaries, net of cash acquired (note 6(b))	-	(2,412)
Cash flows utilised by investing activities	**(22,277)**	**(13,197)**
FINANCING ACTIVITIES		
Proceeds from borrowings	37,584	35,675
Repayment of borrowings	(35,590)	(25,157)
Proceeds from share issue	-	23,016
Repurchase of own shares	(2,428)	-
Transactions with majority shareholders	681	(948)
Cash flows from financing activities	**247**	**32,586**
Net (decrease)/increase in cash and cash equivalents	(13,859)	16,416
Effect of exchange rate fluctuations on cash and cash equivalents	(34)	(185)
Cash and cash equivalents at beginning of year	17,046	815
Cash and cash equivalents at end of year (note 23)	**3,153**	**17,046**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 60.

	Attributable to shareholders of the Company						Minority interest	Total equity
	Share capital	**Additional paid-in-capital**	**Reserve resulting from additional share issue**	**Treasury shares**	**Retained earnings**	**Subtotal**		
Balance at 1 January 2007	**28,530**	**-**	**(28,506)**	**-**	**9,481**	**9,505**	**426**	**9,931**
Profit and total recognised income and expense for the year	-	-	-	-	17,854	17,854	31	17,885
Proceeds from share issue, net of related costs	2,313	20,703	-	-	-	23,016	-	23,016
Excess of consideration paid to Majority Shareholders to acquire interest in a subsidiary (note 6(b))	-	(598)	-	-	-	(598)	-	(598)
Consideration paid to Majority Shareholders to acquire subsidiaries (note 24)	-	(704)	-	-	-	(704)	-	(704)
Dilution of minority interest in a subsidiary	-	-	-	-	-	-	(15)	(15)
Acquisition of subsidiaries (note 6(b))	-	-	-	-	-	-	819	819
Increase in minority interest due to shares disposed of	-	-	-	-	-	-	5	5
Balance at 31 December 2007	**30,843**	**19,401**	**(28,506)**	**-**	**27,335**	**49,073**	**1,266**	**50,339**
Loss and total recognised income and expense for the year	-	-	-	-	(27,961)	(27,961)	(220)	(28,181)
Acquisition of minority shares (note 6(e))	-	-	-	-	-	-	(89)	(89)
Dilution of minority interest in a subsidiary	-	-	-	-	-	-	21	21
Transactions with majority shareholders (notes 24(d)(i) and 24(d)(ii))	-	681	-	-	(385)	296	-	296
Acquisition of treasury shares	-	-	-	(2,428)	-	(2,428)	-	(2,428)
Balance at 31 December 2008	**30,843**	**20,082**	**(28,506)**	**(2,428)**	**(1,011)**	**18,980**	**978**	**19,958**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 60.

1 Background

(a) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The real estate sector in which Group operates has faced increased cost of capital, substantial correction in residential real estate demand and prices, affected by stringent mortgage conditions, labor market decline and restricted consumption.

(b) Organisation and operations

OAO Group of Companies PIK (the "Company") and its subsidiaries (together referred to as the "Group") includes 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. The Company's registered office is 19 Barrikadnaya st., Moscow, 123001, Russian Federation.

The main 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; mining, refining, concentration of sand and gravel and production of crushed stone and sand. During 2008 and 2007 the Group mostly operated in Moscow, Moscow region and other regions of Russia.

During 2006 and 2007, the Group was ultimately owned by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the "Majority Shareholders"), who each had equal power to direct the operations of the Group at their own discretion and for their own benefit. They also have interests in a number of other businesses outside of the Group. Related party transactions are disclosed in note 31.

On 1 June 2007 the Group completed listings on the London Stock Exchange (in the form of global depositary receipts), Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX) in Russia. On 2 July 2007 the over-allotment option was partially exercised by the underwriters. As a result of the above transactions, the entities representing the Mr. Zhukov and Mr.Pisarev, the Majority Shareholders, owned 84% of the Company's outstanding share capital as at 1 January 2008. During 2008, as a result of a series of transactions, the interest of the Majority Shareholders decreased to 74%. The remainder represents free floating shares and treasury shares (refer note 24(b)).

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 that 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; and 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 ("RUR"), 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 RUR has been rounded to the nearest million.

(d) Going concern

The current economic situation has created considerable difficulties for the real estate sector in Russia. The Group incurred a loss of RUR 28,181 million for the year ended 31 December 2008. The Group expects to incur a substantial loss and a substantial operating cash outflow for the year ending 31 December 2009. As at 31 December 2008, the Group had breached a number of financial covenants (as disclosed in note 25) and had loans of RUR 31,742 million repayable within the next twelve months. In addition, the Group breached certain other covenants in January 2009, and, as a result, lenders can request accelerated repayment of 53% of the Group's loan portfolio, including RUR 7,116 million classified as non-current loans and borrowings as at 31 December 2008.

In April 2009, the Group engaged OOO "Sberbank Capital", the investment banking division of OAO "Sberbank", to restructure the Group's debts. The Group's borrowings from OAO "Sberbank" as at 31 December 2008 amounted to RUR 14,226 million. OOO "Sberbank Capital" was granted the right to negotiate, on behalf of the Group, new repayment schedules with the Group's lenders. The bank might also provide legal and commercial advice.

In addition, the Group plans, with the assistance of the OOO "Sberbank Capital", to conclude a standstill agreement with all of its significant lenders in order to defer all repayments of borrowings for a period of four months. This period will be used to negotiate new repayment schedules, additional facilities and the most appropriate mechanism for the debt restructuring process. As at the date that these consolidated financial statements were approved for issuance, the Group had obtained an agreement with a major lender to defer repayment of borrowings to the period from July 2009 to March 2010.

The ability of the Group to continue as a going concern is heavily dependent on the Group's ability to defer loan repayments to later periods and to secure additional borrowings to meet projected operating cash outflows for the year ending 31 December 2009. Accordingly, there is a material uncertainty related to events or conditions described above which may cast significant doubt on the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements do not include any adjustments that would be necessary in the event that the Group was unable to continue as a going concern.

(e) Use of judgments, estimates and assumption

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. 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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 8 *Cost of sales*;
- Note 18 *Impairment;*
- Note 27 *Provisions;*
- Note 26 *Trade and other payables; and*
- Note 30 *Contingencies.*

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in notes 3(a) to 3(u) . These accounting policies have been consistently applied, except as described in notes 3(a) below.

(a) Change in accounting policy

The number of the Group's projects in which third party construction managers are involved has increased significantly as the Group has expanded into the regions. The Group's construction management resources are limited, and third party managers have been increasingly engaged to manage construction projects outside Moscow. The Group's subsidiaries typically provide substantial construction services to such construction managers.

In prior periods, the Group recognised revenue from construction services provided by the Group's subsidiaries to third party construction managers. In 2008, Management decided to change this accounting policy. Effective 1 January 2008, revenue from such services has been treated as an intercompany transaction and eliminated against related costs. Management believes that such presentation results in the consolidated financial statements providing more relevant information.

This change in accounting policy has been applied retrospectively and resulted in a reduction in revenue from construction services and related costs for 2007 of RUR 9,901 million. The change had no effect on equity as at 31 December 2007, or gross profit and profit for the year ended 31 December 2007. The revised presentation resulted in an increase in the gross profit margin percentage from 26% to 30% for the year ended 31 December 2007.

(b) Reclassifications

In 2007 the Group acquired certain inventories for RUR 3,266 million. Of this amount RUR 2,035 million is payable during the period from 2009 to 2012. In 2008, the Group identified that the liability for the inventory should have been discounted. As a result, inventories and the accounts payable were each overstated by RUR 471 million. The balances were adjusted in the 2008 consolidated financial statements, including the effect of the netting the assets and liabilities as at 31 December 2007.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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. No minority interests, if any, are recognised.

(ii) Special purpose entities

The Group has established special purpose entities ("SPE"s) for the purpose of acquiring assets and holding investments. The Group does not have any direct or indirect shareholdings in these entities. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholders that control the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iv) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses 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 associate, 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.

(d) 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 translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

(e) 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.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. 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.

Accounting for finance income and expenses is discussed in note 3(q).

(i) Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(l)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(d)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

(iii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(f) Share capital

(i) Ordinary shares

Issued capital is stated at par value of shares issued adjusted for the effect of hyperinflation as described in note 24(a).

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. 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 transferred to/from retained earnings.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment, other than construction in progress at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are 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 its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. 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 property, plant and equipment are recognised net in "Other income and expenses" in the income statement.

(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 the income statement as incurred.

(iii) Depreciation

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. 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 to 60 years
- Plant and equipment 5 to 25 years
- Other fixed assets 5 to 20 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(h) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

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 acquisition of that interest.

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Development rights

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognised in the income statement 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(j) 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 income statement when incurred.

(v) Amortisation

Intangible assets, other than goodwill and development rights, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives of other intangible assets for the current and comparative periods are 3 – 10 years.

(i) 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 balance sheet.

(j) 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 costs of real estate properties under construction are determined on the basis of specific identification of their individual costs.

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 income statement.

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 or/and construct certain infrastructure facilities in exchange of the ability to develop the property. In such cases the construction costs are included in the total costs of construction of such buildings, when incurred. In addition the Group 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 certain development rights, and they cannot be assessed as onerous (as described in note 3(n)(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.

(k) Assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are not depreciated.

(l) 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 considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(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, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses 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.

(m) Employee benefits

(i) Contributions to State pension fund

Obligations for contributions Russia's State pension fund are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(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.

(n) 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.

(i) Tax provisions

The Group provides for tax risks including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or in another relevant line of the income statement.

(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 note3(j), the Group enters into investment or co-investment agreements to develop residential buildings, the contracts may require that the Group deliver certain properties to the local authorities upon completion of the construction or/and construct certain infrastructure facilities in exchange of 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 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 agreements cannot be directly attributable 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.

(o) 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 income statement 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 the 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 – refer note 3(a) for a description of the change in accounting policy.

(iii) Other sales

Revenue from the sale of construction materials is recognised in the income statement when significant risks and rewards of ownership have been transferred to the buyer.

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement 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.

(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 income statement as incurred.

(q) Finance income and expenses

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 foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(r) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income 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.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

(s) 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The Company has not issued any potential ordinary shares that may have a dilutive effect on EPS.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group’s business and geographical segments. The business segments are determined based on the Group’s management and internal reporting structure.

Inter-segment pricing is determined as agreed by the transacting parties and may not be on an arm’s length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Group’s headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(u) 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 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 Operating Segments, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's management in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 5). The new Standard will not have any impact on the Group's financial position or performance.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity. The new Standard will not have any impact on the Group's financial position or performance.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.
- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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/or 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, when possible. 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, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

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, including development rights, 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, including real estate properties intended for sale under construction, 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) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted 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.

(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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Segment reporting

(a) Primary reporting format

The Group's primary segment reporting format is based on business segments. The Group comprises the following business segments:

- *Sale of real estate*: 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 services*: Contracting activities, construction of concrete panels, assembly of prefabricated panel buildings and production of other construction materials.
- *Sale of construction materials and other activities:* The production and sale of raw materials, servicing and maintenance of residential properties and other activities.

(b) Secondary reporting format

The Group's secondary segment reporting format is based on geographical segments.

The Group entities operate in two principal geographical areas, the Moscow Region, including Moscow City, and other regions in Russia. Prior to 31 December 2006, the segment operating out of other regions was not identified as a reportable segment, as its revenue from sales to external customers and from transactions with other segments, results and assets were less than 10% of the Group's total revenue, results of operations and assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the assets.

Business segments

Mln RUR	Sale of real estate		Construction services		Sale of construction materials and other activities		Eliminations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Revenue from external customers	23,230	50,421	5,485	4,197	6,920	4,531	-	-	35,635	59,149
Inter-segment revenue	-	-	5,574	13,607	4,345	990	(9,919)	(14,597)	-	-
Total revenue	23,230	50,421	11,059	17,804	11,265	5,521	(9,919)	(14,597)	35,635	59,149
Segment result	(18,382)	23,175	(2,372)	155	(404)	334	-	-	(21,158)	23,664
Unallocated expenses									(794)	(366)
Finance income									481	569
Finance expenses									(7,806)	(2,363)
Share of loss from equity accounted investees									(75)	(24)
(Loss)/profit before income tax									(29,352)	21,480
Segment assets	122,303	120,860	59,438	50,880	11,431	9,933	(55,350)	(59,341)	137,822	122,332
Unallocated assets									4,505	3,950
Total assets									142,327	126,282
Segment liabilities	68,417	28,345	60,057	42,514	11,105	7,008	(64,500)	(45,564)	75,079	32,303
Unallocated liabilities									47,290	43,640
Total liabilities									122,369	75,943
Depreciation, amortisation and impairment losses	16,188	64	7,029	530	1,887	211	-	-	25,104	805
Capital expenditure	553	10,669	683	1,902	725	2,641	-	-	1,961	15,212

Geographical segments

	Moscow and Moscow Region		Other Regions		Consolidated	
Mln RUR	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Revenue from external customers	31,461	51,092	4,174	8,057	35,635	59,149
Segment assets	103,193	101,622	34,629	20,710	137,822	122,332
Capital expenditure	1,547	14,161	414	1,051	1,961	15,212

6 Acquisition of subsidiaries and minority interest

(a) Acquisitions of subsidiaries in 2008

There were no significant acquisitions of controlling interests in businesses in 2008.

During the year, the Group acquired interests in entities in which there were no integrated sets of activities conducted and assets are managed for the purpose of providing a return to investors. Such acquisitions were accounted for as purchases of assets – refer note 16(b).

(b) Acquisitions of subsidiaries in 2007

OOO Foton GBI and OOO Foton ABZ

In April 2007 the Group acquired a 100% interest in OOO Foton GBI and OOO Foton ABZ for a total consideration of RUR 1,037 million settled in cash. The main activity of the subsidiaries acquired is the production of concrete mix and reinforced concrete products at production facilities located in the Kaluga Region, Russia. The acquisition of these subsidiaries resulted in goodwill amounting to RUR 299 million. The goodwill arose on the acquisition mainly because of the limited supply of production facilities for the manufacture of concrete products in the region.

Storm Properties Group

In September 2007 the Group acquired 50% plus 1 share in Sturm Properties Limited, the parent company of the Storm Properties Group, for a consideration of RUR 1,347 million settled in cash. The Storm Properties Group is a leading developer operating in the commercial real estate segment in Russia. The purchase agreement provides for an option to acquire an additional 25% interest in the Storm Properties Group for a market price at the date of the transaction. The option vests in three years from the date of the acquisition and expires in two years from the vesting date. The acquisition of the Storm Properties Group resulted in goodwill amounting to RUR 591 million. The goodwill arose on the acquisition due to the well-established reputation of Storm Properties Group as a leading-edge company with exceptional innovation capabilities in the commercial estate segment.

OAO 480 KZhI

In July 2007 a related party of the Group acquired a 100% interest in OAO 480 KZhI for a consideration of RUR 639 million. In November 2007 the Group purchased from the related party a 100% interest in OAO 480 KZhI for a consideration of RUR 1,237 million as determined by an independent internationally recognised appraisal company, settled in cash. Because the control of the related party over the acquiree was transitory, the acquisition of the company by the Group from the related party was not accounted for as a common control transaction. The transaction was accounted for as a business combination under IFRS 3 *Business Combinations.* The difference between the consideration paid by the Group and the consideration paid by the related party of RUR 598 million was recognised directly in equity. The acquisition of the subsidiary resulted in goodwill amounting to RUR 274 million.

OAO Khromtsovsky Karier

In May 2007 the Group obtained control over OAO Khromtsovsky Karier, a sand pit, by acquiring an additional 25% interest for a consideration of RUR 32 million settled in cash. This acquisition increased the Group's interest from 48% to 73%. The acquisition of the subsidiary resulted in goodwill amounting to RUR 28 million. The goodwill was assessed for impairment as at 30 June 2007 and an impairment loss of RUR 28 million was recognised as a result – refer note 18(f).

OAO NovorosGragdanproekt

In September 2007 the Group acquired a 57% interest in OAO NovorosGragdanproekt for a consideration of RUR 160 million settled in cash. The main activity of acquired entity is the provision of design and architectural services. The acquisition of the subsidiary resulted in goodwill amounting to RUR 78 million. The goodwill arose on the acquisition mainly due to the expected growth of the company's architectural and design expertise.

Other disclosures

The impact of acquiring the subsidiaries was to increase profit for the year by RUR 15 million.

Prior to the acquisition by the Group, the acquired subsidiaries prepared their financial statements in accordance with Russian accounting principles, which are, in certain respects, significantly different from IFRSs. Because the acquired subsidiaries did not prepare IFRS financial statements before they were acquired, it was impracticable to determine:

- the carrying amounts of the subsidiaries' assets and liabilities on an IFRS basis immediately prior to the date of acquisition;
- the Group's revenue and profit for the year had the acquisitions occurred on 1 January 2007.

(c) Purchase price allocation

Management engaged independent appraisers to perform purchase price allocations for the acquisitions of OOO Foton GBI and OOO Foton ABZ, Storm Properties Group, OAO 480 KZhI and ZAO Stroyinvestregion. Management used internal expertise to allocate the purchase price paid for OAO Khromtsovsky Karier and OAO NovorosGragdanproekt since the acquisitions do not have significant effect on these consolidated financial statements.

(d) Effect on the consolidated financial statements

The acquisitions of the subsidiaries had the following effect on the Group's assets and liabilities at the dates of acquisitions:

	2007 mln RUR
Intangible assets	418
Property, plant and equipment	2,038
Investments	365
Deferred tax assets	5
Inventories	183
Trade and other receivables	526
Cash and cash equivalents	803
Deferred tax liability	(447)
Loans and borrowings	(365)
Trade and other payables	(762)
Net identifiable assets, liabilities and contingent liabilities	2,764
Minority interest	(819)
Portion of consideration paid to a related party for the acquisition of the interest in OAO 480 KZhI (recognised in equity)	598
Goodwill on acquisition	1,270
Consideration paid	3,813
Cash acquired	(803)
Net cash outflow	3,010

(e) Acquisition of minority interest

In February 2008 the Group partially exercised the 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 RUR 189 million. The acquisition of the minority share resulted in additional goodwill amounting to RUR 115 million.

In November 2008 the Group bought additional 2.81% in OAO DSK-3 for a consideration of RUR 185 million, increasing its ownership to 87%. The acquisition resulted in recognition of additional goodwill amounting to RUR 170 million.

7 Revenue

	2008 mln RUR	2007 mln RUR
Revenues from sale of apartments	23,230	50,421
Revenues from construction services	5,485	4,197
Revenues from sale of construction materials and other sales	6,920	4,531
	35,635	**59,149**

In 2008 the Group completed 37 buildings with a saleable area of 409 thousand square meters and 5 underground garages with 909 parking slots (2007: 81 buildings with a saleable area of 1,048 thousand square meters and 3 underground garages with 394 parking slots, respectively). Of the buildings and underground garages completed in 2008, the Group sold 307 thousand square meters and 257 parking slots (2007: 939 thousand square meters and 149 parking slots). In addition, approximately 71 thousand square meters were sold in 2008 in buildings completed in earlier periods (2007: 53 thousand square meters).

The Group has recognised revenue of RUR 23,230 million (2007: RUR 50 421 million) for the sale of apartments in the normal course of business. Customers have the legal right to reverse the transaction up to the date of entering into final sale and 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 2008 would have decreased by approximately RUR 232 million (2007: RUR 504 million).

Construction services in the amount of RUR 9,363 million (2007: RUR 9,901 million) were provided to developers of buildings where the Group participates as a co-investor. These revenues have been eliminated against cost of sales – refer note 3(a).

8 Cost of sales

	2008 mln RUR	2007 mln RUR
Cost of construction	17,289	34,311
Salaries and wages	4,319	3,308
Materials	2,679	3,006
Overhead expenses	1,435	206
Depreciation	694	474
	26,416	**41,305**

9 Personnel costs

	2008 mln RUR	2007 mln RUR
Wages and salaries	7,377	4,646
Social charges	1,127	837
	8,504	**5,483**

10 Gain on disposal of development rights

	2008 mln RUR	2007 mln RUR
Gain on disposal of shares in Mytischy project – note 10(a)	-	5,764
Gain on disposal of the right to develop Park City – note 10(b)	-	3,363
Gain on disposal of the right to develop real estate at Yubileiny district – note 10(c)	-	375
	-	**9,502**

(a) Gain on disposal of shares in Mytischy project

In December 2007 the Group entered into an agreement to sell, for a consideration of RUR 5,770 million, a 25% interest in Viniso Investments Limited, a subsidiary. This company was the parent company of a number of entities operating a project to develop residential housing in Mytischy, Moscow Region. The carrying amount of the minority interest disposed of amounted to RUR 6 million. The disposal of the minority interest resulted in a gain of RUR 5,764 million.

(b) Gain on disposal of the right to develop Park City

As at 31 December 2006 the Group owned a 25% interest in ZAO Park-City Investments Limited and OOO KRPT. The investments in ZAO Park-City Investments Limited and OOO KRPT are accounted for as equity accounted investees. The two entities effectively owned a 21% interest in Park City, a project to develop real estate property on a land plot located at Kutuzovsky Prospect, Moscow.

In addition, at 31 December 2006 the Group also owned a 100% interest in ZAO Viktor which was a party to a co-investment agreement with a 15% share in the Park City project.

In 2007 ZAO Viktor transferred the right under the co-investment agreement to a Cyprus-based subsidiary and subsequently the Group sold a 75% interest in the subsidiary in two transactions for a total consideration of RUR 3,701 million. These transactions resulted in a decrease in the effective interest of the Group in the project to 25%. The carrying amount of the investment in the development right disposed of was RUR 338 at the date of disposal. The gain on disposal amounted to RUR 3,363 million. The outstanding balance of accounts receivable from the above transactions as at 31 December 2007 amounted to RUR 2,455 million - refer note 22.

(c) Gain on disposal of the right to develop real estate at Yubileiny district

In April 2007 the Group sold an interest in the legal entity which owned the development rights for a land plot at Yubileiny District, Khimki, Moscow Region, including the land lease contract and the construction permit to a third party for a consideration of RUR 2,675 million. The gain on disposal amounted to RUR 375 million.

11 Distribution expenses

	2008 mln RUR	2007 mln RUR
Advertising expenses	675	622
Wages and salaries	215	47
Other	276	210
	1,166	**879**

12 Administrative expenses

	2008 mln RUR	2007 mln RUR
Wages and salaries	3,970	2,127
Professional and other services	641	348
Depreciation	272	91
Other administrative expenses	1,094	548
	5,977	**3,114**

13 Finance income and expenses

	2008 mln RUR	2007 mln RUR
Finance income		
Interest income	481	340
Gain on the disposal of available-for-sale financial assets	-	229
	481	**569**
Finance expenses		
Interest expense	(2,303)	(2,063)
Impairment losses on financial assets	(2,547)	-
Foreign exchange losses	(2,941)	(300)
Loss on disposal of available-for-sale financial assets	(15)	-
	(7,806)	**(2,363)**

In addition to borrowing costs recognised in the income statement, borrowing costs of RUR 1,192 million (2007: RUR 626 million) have been capitalised as part of construction work in progress intended for sale.

14 Income tax credit/(expense)

The income tax credit/(expense) consists of the following:

	2008 mln RUR	2007 mln RUR
Current tax expense		
Current year	(397)	(544)
Tax provision recognised, net of reversals (note 27)	(262)	-
	(659)	(544)
Deferred tax credit		
Origination and reversal of temporary differences	618	(3,051)
Effect of change in the tax rate	1,212	-
	1,171	**(3,595)**

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	2008 mln RUR	%	2007 mln RUR	%
(Loss)/profit before income tax	(29,352)	100	21,480	100
Income tax expense at applicable tax rate	7,044	24	(5,155)	(24)
Effect of unrecognised temprorary differences	(5,808)	(20)	-	-
Non-deductible expenses	(1,183)	(4)	(728)	(3)
Effect of the change in the tax rate	1,212	4	-	-
Tax provisions, net of reversals	(262)	(1)	-	-
Effect of income taxed at lower rates	168	1	2,288	11
	1,171	4	(3,595)	(16)

15 Property, plant and equipment

mln RUR	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
Balance at 1 January 2007	3,067	2,858	769	2,420	9,114
Acquisitions through business combinations	1,647	334	52	5	2,038
Additions	-	60	-	3,652	3,712
Disposals	(142)	(140)	(63)	(43)	(388)
Reclassifications	2,574	899	1,181	(4,654)	-
Balance at 31 December 2007	**7,146**	**4,011**	**1,939**	**1,380**	**14,476**
Additions	1,295	93	305	1,957	3,650
Disposals	(88)	(300)	(184)	(276)	(848)
Reclassifications	502	292	266	(1,060)	-
Balance at 31 December 2008	**8,855**	**4,096**	**2,326**	**2,001**	**17,278**
Accumulated depreciation and impairment losses					
Balance at 1 January 2007	(312)	(750)	(217)	-	(1,279)
Impairment losses	-	(27)	-	-	(27)
Depreciation charge	(172)	(421)	(183)	-	(776)
Disposals	26	93	43	-	162
Balance at 31 December 2007	**(458)**	**(1,105)**	**(357)**	**-**	**(1,920)**
Impairment losses (see note 18(a))	(1,469)	(199)	(125)	-	(1,793)
Depreciation charge	(287)	(450)	(234)	-	(971)
Disposals	15	129	102	-	246
Balance at 31 December 2008	**(2,199)**	**(1,625)**	**(614)**	**-**	**(4,438)**
Net book value					
At 1 January 2007	**2,755**	**2,108**	**552**	**2,420**	**7,835**
At 31 December 2007	**6,688**	**2,906**	**1,582**	**1,380**	**12,556**
At 31 December 2008	**6,656**	**2,471**	**1,712**	**2,001**	**12,840**

(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 2008 property, plant and equipment with a carrying value of RUR 732 million (2007: RUR 643 million) was pledged to secure bank loans (refer note 25).

(c) Leased plant and machinery

During the years ended 31 December 2008 and 2007 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 2008 the net book value of leased plant and machinery was RUR 270 million (31 December 2007: RUR 483 million). The leased equipment secures lease obligations.

(d) Construction in progress

At 31 December 2008 the balance of construction in progress includes prepayments made by the Group for the acquisition of property, plant and equipment, including a prepayment made during 2008 to acquire a second part of a new office building in the amount of RUR 644 million.

(e) Depreciation expense

Depreciation expense of RUR 694 million has been charged to cost of goods sold, RUR 5 million to distribution expenses and 272 million to administrative expense (2007: RUR 474 million, RUR 4 million and RUR 91 million, accordingly).

16 Intangible assets

mln RUR	Goodwill	Development rights	Other intangible assets	Total
Cost				
Balance at 1 January 2007	1,765	2,321	5	4,091
Acquisitions through business combinations	1,270	-	418	1,688
Additions	-	16,076	1	16,077
Impairment losses	(28)	-	-	(28)
Reclassification into construction work-in-progress	-	(611)	-	(611)
Balance at 31 December 2007	3,007	17,786	424	21,217
Acquisitions through business combinations	285	-	-	285
Additions	-	25,497	216	25,713
Impairment losses (see note 18(b))	(3,292)	-	-	(3,292)
Reclassification into construction work-in-progress	-	(793)	-	(793)
Balance at 31 December 2008	-	42,490	640	43,130
Accumulated amortisation and impairment losses				
Balance at 1 January 2007	-	-	(3)	(3)
Amortisation charge	-	-	(1)	(1)
Balance at 31 December 2007	-	-	(4)	(4)
Impairment losses (see note 18(c))	-	(15,247)	(319)	(15,566)
Amortisation charge	-	-	(105)	(105)
Balance at 31 December 2008	-	(15,247)	(428)	(15,675)
Net book value				
At 1 January 2007	**1,765**	**2,321**	**2**	**4,088**
At 31 December 2007	**3,007**	**17,786**	**420**	**21,213**
At 31 December 2008	**-**	**27,243**	**212**	**27,455**

(a) Goodwill

At 31 December 2008 and 2007, the aggregate carrying amounts of goodwill allocated to respective production plants or development companies were as follows:

	2008 mln RUR	2007 mln RUR
OAO DSK-3	1,890	1,721
Storm Properties Limited	707	591
OOO Foton GBI and OOO Foton ABZ	299	299
OAO 480 KZHI	274	274
Goodwill attributable to other sites	122	150
	3,292	3,035
Less impairment losses	(3,292)	(28)
	-	3,007

(b) Development rights

As at 31 December 2008 and 2007 the Group's portfolio of development rights comprised of the following items:

Subsidiary	Location of land plot	2008 '000 RUR	2007 '000 RUR
OAO Krasnopresnensky Sakharorafinadny Zavod	Moscow, Center (KSRZ)	8,071	-
OOO Status Land	Moscow region, South-West, Kommunarka	8,952	1,786
OAO Kuskovskiy Khimicheskiy Zavod	Moscow, South-East (KHZ)	5,226	5,071
OOO Proekt V	Moscow region, North-West (North West Towers)	3,067	2,794
OOO RusBusinessInvest/OOO Maks Ltd	Yaroslavl (Frunzenskiy and Dzerzhinskiy districts)	2,986	-
OOO Waystone	Moscow, South, Kashirskoye	1,995	1,848
ZAO Neva Invest	Saint Petersburg, Vasilevskiy Ostrov	2,069	-
OOO Izh Stroi	Republic of Udmurtia, Izhevsk	1,836	-
ZAO Zavod Gazstroymash	Moscow, South, Varshavkoye	1,126	1,097
ZAO Zavod Krasniy Vostok	Moscow, South-east, Shelkovskoye	1,030	1,030
OOO PIK Perm	Perm, Bakharevka	1,007	-
OOO Priz/OOO Rash	Kaliningrad region, Svetlogorsk	995	995
OOO Alanteya	Moscow, South, Michurinskiy	665	-
OOO Semigor	Krasnodar region, Novorossisk	650	649
OOO Rostovskoye More	Rostov region	368	-
OOO DSK StroyKonstrukciya 2	Moscow Region, North-East	189	189
OOO Business Professional/OOO Impex Consulting	Kaluga	-	388
Others entities		2,258	1,939
		42,490	17,786
Less provision for impairment		(15,247)	-
		27,243	**17,786**

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 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 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, RUR million
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

(*) In 2008 the Group acquired an additional 51% interest in this project for a consideration of RUR 5,395 million, increasing the Group's share in the project from 49% to 100%. As at 31 December 2007, the Group's 49% interest in the shares of ZAO Gorodskoe Razvitye was classified as an equity accounted investee – refer note 17.

(c) Other intangible assets

The balance of other intangible assets includes promotion and development fees RUR 418 million (RUR 100 million net of impairment) acquired as part of the acquisition of Storm Properties Limited in 2007 (refer note 6(b)).

17 Investments in equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	Voting and effective	2008 mln RUR	2007 mln RUR
ZAO Gorodskoe razvitye (Project KSRZ)	Russia	49%	-	2,676
ZAO Park-City Investments/ OOO KRPT (Project Park City)	Russia	33%/25%	3,501	743
			3,501	3,419

As disclosed in note 16, in 2008 the Group acquired a controlling interest in project KSRZ, therefore the investment in equity accounted investee was reclassified to development rights.

In November 2008, the 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 RUR 2,882 million. The transaction increased the effective ownership in the project from 25% to 33% - see note16(b).

18 Impairment losses on non-financial assets and write down of inventories

In December 2008, an impairment review was performed on the following non-current assets, including:

- 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 as at 31 December 2008. 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 KZhI, OAO 100 KZhI, OOO Foton GBI and OOO Foton ABZ. Goodwill acquired as part of the business combinations in previous years was allocated to OAO DSK-3, OAO 480 KZhI, OOO Foton GBI and OOO Foton ABZ (refer note 18(b) below) and tested for impairment as part of testing of the related cash generating units. The following key assumptions were used to determine the value in use:

- The recoverable amount of the above cash generating units 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 2008, and the five-year business plan with adjustments for intra-group pricing; cash flows beyond the five-year period have been extrapolated for periods representing the remaining useful lives of major assets of 17 to 20 years;
- Plant utilisation capacities are projected at 33% to 86% (2007: 26% to 100%);
- A nominal, pre-tax discount rate of 25% (2007: 15%-17%) for RUR 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 RUR 1,302 million;
- A 1% increase in the discount rate from 25% to 26% would result in an additional impairment loss of RUR 129 million.

(ii) Nonmetal mining assets

This group includes assets of OOO SPTK and a number of other entities. The following key assumptions were used to determine the value in use:

- The recoverable amount of the above cash generating units 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 2008, and the five-year business plan with adjustments for intra-group pricing; cash flows beyond the five-year period have been extrapolated for periods representing the remaining useful lives of major assets of 10 to 30 years;
- Plant utilisation capacities are projected at 78% to 97% (2007: 88% to 97%);
- A nominal, pre-tax discount rate of 25% (2007: 17%-19%) for RUR denominated cash flows was applied in determining the recoverable amounts 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 impairment loss RUR 16 million;
- A 1% increase in the discount rate from 25% to 26% would not result in any impairment.

(iii) Administrative building

The recoverable amount of the administrative building used by the Group's headquarters 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 RUR 0.033 million per square meter per year for the 10-year period;
- Operating expenses were estimated at 1.5% of rental income;
- A capitalisation rate of 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% was applied in discounting the net cash inflows.

As at 31 December 2007, the recoverable amount was determined by multiplying an annual rent of RUR 0.029 million by a capitalisation rate of 8%.

(iv) Aircraft and yacht used for representative purposes

The recoverable amount of the above non-operating assets was determined 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.

At 31 December 2008 and 2007, the aggregate carrying amounts of goodwill (before the impairment losses) allocated to respective production plants or development companies are as follows:

	2008 mln RUR	2007 mln RUR
OAO DSK-3	1,890	1,721
Storm Properties Limited	707	591
OOO Foton GBI and OOO Foton ABZ	299	299
OAO 480 KZHI	274	274
Goodwill attributable to other sites	122	122
	3,292	3,007

(i) Pre-fabricated panel manufacturing

The assumptions used are disclosed in (a)(i) above.

(ii) Storm Properties

The cash generating unit of the development company includes the following assets: goodwill, promote fee and development fees.

The following key assumptions were used to determine the value in use:

- The recoverable amount of the above cash generating units represents value in use as determined by discounting the future cash flows generated from the continuing use of the assets;
- Cash-flow projections were based on the business plan for each project under consideration and cover a 7-years period;
- The revenue related cash-flows consist of expected promote fee (percentage of profit attributable to Storm Properties), development fee (based on contractual terms) and revenues from disposal of the completed project;
- A capitalisation rate and rents were estimated using market data. In estimating the terminal value of each project a 8% capitalisation rate was used.
- The overheads were estimated based on historical data for 2008 and assumed to remain constant;
- A discount rate of 21% was applied in discounting net cash flows.

The above estimates are particularly sensitive to the following assumptions:

- A 10% decrease in future planned cash flows would result in an additional impairment loss of RUR 59 million;
- A 1% increase in the discount rate from 21% to 22% would result in an additional impairment loss of RUR 60 million.

(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 during the period from November 2008 to the date of these consolidated financial statements, 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 in December 2008 for similar properties;
- The margins for projects are based on the Group's historical data for completion of similar properties and vary from 10% to 53%;
- The projects are expected to commence during the period from 2010 to 2012;
- The Group will start to receive sales proceeds 1.5 years 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% for RUR-based cash flows was applied 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 RUR 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 RUR 3,869 million.

(d) Equity accounted investees

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.

(e) Inventories

As disclosed in note 21, as at 31 December 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% 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 RUR 599 million;
- An increase of the discount rate by 10% from 19% to 21% would result in additional inventory write down of RUR 553 million.

(f) Results of impairment tests and inventory write downs

As a result of the impairment tests performed by the Group the carrying amounts of the assets were adjusted as follows:

	Note	Carrying value mln RUR	Impairment / write down mln RUR	Balance after impairment mln RUR
Property, plant and equipment	15	14,633	(1,793)	12,840
Goodwill and promote and development fees	16	3,611	(3,611)	-
Development rights	16	42,490	(15,247)	27,243
Inventory	21	12,850	(3,377)	9,473
Equity accounted investee	17	3,501	-	3,501
		77,085	**(24,028)**	**53,057**

During the year ended 31 December 2007 the Group recognised an impairment loss in respect of the goodwill related to OAO Khromtsovskiy Karier – refer note 6(b), and an impairment loss of RUR 28 million in respect of property, plant and equipment.

19 Other investments

	2008 mln RUR	2007 mln RUR
Non-current		
Available-for-sale equity investments	181	242
Mortgage loans	119	-
Loans receivable and promissory notes	43	53
	343	295
Less provision	(174)	-
	169	**295**

	2008 mln RUR	2007 mln RUR
Current		
Unsecured loan receivable from third party	-	1,718
Unsecured loans receivable from entities controlled by the Majority Shareholders (RUR denominated, 10-11% per annum)	1,052	895
Unsecured loan from a third party	2,838	-
Mortgage loans	692	-
Other unsecured loans and promissory notes receivable from third parties	1,020	454
Other unsecured loans receivable from related parties	468	121
Others	208	188
Interest receivable	298	-
	6,576	3,376
Less provision	(2,353)	-
	4,223	**3,376**

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

mln RUR	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	130	26	(765)	(941)	(635)	(915)
Investments	-	10	(60)	-	(60)	10
Intangible assets	-	-	(61)	(42)	(61)	(42)
Inventories	955	853	(318)	(461)	637	392
Trade and other receivables	292	113	(162)	(874)	130	(761)
Loans and borrowings	16	50	-	-	16	50
Trade and other payables	40	114	(6,811)	(6,753)	(6,771)	(6,639)
Tax loss carry-forwards	680	11	-	-	680	11
Tax assets/(liabilities)	2,113	1,177	(8,177)	(9,071)	(6,064)	(7,894)
Set off of tax	(2,042)	(1,065)	2,042	1,065	-	-
Net tax assets/(liabilities)	**71**	**112**	**(6,135)**	**(8,006)**	**(6,064)**	**(7,894)**

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the deductible temporary differences of RUR 5,808 million (31 December 2007: nil). Deferred tax assets have not been recognised in respect of these 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) Movement in temporary differences during the year

mln RUR	1 January 2008	Recognised in income	Effect of change on tax rate	31 December 2008
Property, plant and equipment	(915)	153	127	(635)
Investments	10	(82)	12	(60)
Intangible assets	(42)	(31)	12	(61)
Inventories	392	373	(128)	637
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
	(7,894)	**618**	**1,212**	**(6,064)**

mln RUR	1 January 2007	Recognised in income	Acquired	31 December 2007
Property, plant and equipment	(547)	28	(396)	(915)
Investments		10	-	10
Intangible assets		-	(42)	(42)
Inventories	(961)	1,356	(3)	392
Trade and other receivables	14	(754)	(21)	(761)
Loans and borrowings		50	-	50
Trade and other payables	(2,946)	(3,713)	20	(6,639)
Tax loss carry-forwards	39	(28)	-	11
	(4,401)	**(3,051)**	**(442)**	**(7,894)**

(d) Unrecognised deferred tax liabilities

A temporary difference of RUR 11,229 million relating to investments in subsidiaries has not been recognised as at 31 December 2007 as the Group is able to control the timing of reversal of the difference, and reversal was not expected in the foreseeable future. In 2008 the Group incurred losses of RUR 28,181 million which resulted in a decrease of the unrecognised deferred tax liablities to nil and in an increase of the related asset to RUR 25,121 million, which has not been recognised.

21 Inventories

	2008 mln RUR	2007 mln RUR
Construction work in progress, intended for sale	40,528	29,508
Prepayments for real estate property intended for sale	27,321	11,671
Raw materials and consumables	1,599	1,607
Work in progress	1,679	1,276
Finished goods and goods for resale	5,124	5,739
	76,251	**49,801**
Write down	(3,377)	(111)

At 31 December 2008 and 2007 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.

Due to current economic environment, 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 RUR 3,377 million (2007: RUR 111 million).

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 period is 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.

At 31 December 2008, inventory with a carrying value of RUR 6,952 million (2007: RUR 5,355 million) was pledged to secure bank loans (refer note 25).

22 Trade and other receivables

	2008 mln RUR	2007 mln RUR
Trade accounts receivable	8,572	11,545
Advances paid	2,290	1,976
Accounts receivable for disposal of development rights (note 10)	-	2,455
Taxes receivable	686	442
Others	2,576	1,678
	14,124	**18,096**
Impairment losses	(288)	(139)

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

23 Cash and cash equivalents

	2008 mln RUR	2007 mln RUR
Petty cash	3	26
Bank balances, RUR denominated	3,047	16,800
Bank balances, USD denominated	103	230
Cash and cash equivalents in the balance sheet	3,153	17,056
Bank overdrafts	-	(10)
Cash and cash equivalents in the statement of cash flows	**3,153**	**17,046**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

24 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2008	Ordinary shares 2007
Authorised shares	856,260,384	856,260,384
Par value	RUR 62.5	RUR 62.5
On issue at beginning of year	493,260,384	456,260,384
Issued for cash	-	37,000,000
Acquisition of treasury shares in January 2008	(3,290,000)	-
On issue at end of year, fully paid	489,970,384	493,260,384

The share capital of RUR 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 RUR 13 million. As a result, the carrying value of the share capital as at 31 December 2004 amounted to RUR 23 million.

In May 2007 the Company was admitted for listing on the London Stock Exchange (LSE), the Russian Trading System Stock Exchange (RTS) and the Moscow Interbank Currency Exchange (MICEX). As part of the initial public offering the Company issued 37,000,000 new shares with the par value of RUR 62.5 per share, and the existing shareholders sold additional 37,000,000 shares. The shares were offered and sold at USD 25 / RUR 646 per share.

The difference between the total consideration received by the Group (RUR 23,911 million), reduced by the amount of expenses incurred on issue (RUR 895 million), and the nominal value of the shares issued (RUR 2,313 million) of RUR 20,703 million was recognised as additional paid-in capital.

(b) Reserve for own shares

In January 2008 the Group acquired 3,290,000 ordinary shares of the Company for a total consideration of RUR 2,428 million (or RUR 738 per share). The Group plans to use these shares for share-based compensation arrangements for top management. As at 31 December 2008 no share-based compensation arrangement have been formally approved or agreed.

At the balance sheet date the Group held 3,290,000 (2007: nil) of its own shares. The shares were pledged to secure a bank loan – refer note 25.

(c) Dividends

In accordance with 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. As at 31 December 2008 the Company had a retained loss of RUR 2,295 million (2007: RUR 201 million).

At the balance sheet date the no dividends have been recommended by the directors.

(d) Additional paid-in capital

(i) Acquisition of shares in subsidiaries

During 2007 the Group acquired legal ownership over the shares in certain subsidiaries of the Group for a total consideration of RUR 704 million from a related party. Those subsidiaries have been included in the Group's consolidated financial statements in prior periods as the previous legal owners held the respective interests on behalf of the Group; therefore, the consideration payable under the sale and purchase agreement was recognised as a decrease in additional paid-in capital in 2007. On 31 December 2007 the outstanding amount payable to the related party in respect of this transaction amounted to RUR 353 million.

In April 2008 the Group received contributions from the Majority Shareholders in the amount of RUR 681 million compensating the Group for the costs incurred in 2007. The contribution was recognised as an increase in additional paid-in capital in 2008.

(ii) Fees for guarantee arrangements

In 2008 the Group recognised a liability of RUR 385 million with a corresponding charge to retained earnings, to the entities controlled by the Majority 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 2008, the liability has not been paid.

(iii) Acquisition of shares in OAO 480 KZHI

In 2007 the difference between the consideration paid by the Group and the consideration paid by a related party to acquire control over OAO 480 KZHI of RUR 598 million was recognised as a decrease in additional paid-in capital – refer note 24(d).

(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	**2008**	**2007**
Issued shares at 1 January	493,260	456,260
Effect of shares issued in May 2007	-	21,583
Effect of shares acquired in January 2008	(3,016)	-
Weighted average number of shares for the year ended 31 December	**490,244**	**477,843**

25 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 28.

	2008 mln RUR	2007 mln RUR
Non-current		
Secured bank loans	8,321	8,567
Unsecured bank loans	-	1,467
Unsecured loans from third parties	61	314
Unsecured loans from related parties	-	23
Finance lease liabilities	11	89
	8,393	**10,460**
Current		
Secured bank loans	20,477	8,738
Unsecured bank loans	7,744	12,377
Unsecured loans from third parties	1,856	2,048
Unsecured loans from related parties	463	169
Secured loans from third parties	866	-
Bonds, PIK-05	-	560
Overdrafts from a related party bank	-	9
Bank overdrafts	-	1
Current portion of finance lease liability	76	120
Interest payable	260	158
	31,742	**24,180**
	40,135	**34,640**

At 31 December 2008 the following assets secure bank loans:

- property, plant and equipment with a carrying value of RUR 732 million (2007: RUR 643 million);
- inventory with a carrying value of RUR 6,952 million (2007: RUR 5,355 million);
- development rights with a carrying value of RUR 2,752 million (2007: RUR 2,794 million);
- treasury shares acquired by the Group for the consideration of RUR 2,428 million (as at 31 December 2008, the fair value of the shares was RUR 93 million);
- shares of the following subsidiaries which comprise a substantial part of the Group:

	2008		2007	
	Number of shares	**% of share capital**	**Number of shares**	**% of share capital**
OAO DSK-2	51,950,334	98	30,629,943	58
OAO DSK-3	1,747,081	81	1,747,081	81
OAO KHZ	1,454,600	92	1,454,600	92
OAO 160 DSK	406,541	25		
Avtorita Holdings Ltd	50,000	100	50,000	100
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	42,501	25	-	-
ZAO TP Red East	37,317	93	-	-
ZAO Stroybusinesscenter	10,000	100	-	-
ZAO Podmoskovie 160 DSK	5,811	63	-	-
ZAO Monetchik	100	100	100	100
ZAO PIK Zapad	110	100	-	-
OOO NSS	-	100	-	100
OOO Stroyinvest	-	100	-	100
OAO 100 KGI	-	-	10 016	73
OOO SPTK	-	-	-	100
OOO Foton ZhBI	-	-	-	100
OOO Semigor	-	100	-	-
OOO Status Land	-	100	-	-
OOO Kholdingovaya Kompaniya Upravlenie Experimentalnoy Zastroyki Novokurkino	-	100	-	-

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

2008 **mln RUR**	**Total**	**Under 1 year**	**1 - 5 years**
Secured bank loans			
RUR - fixed at 8% - 10%	13,991	6,875	7,116
RUR - fixed at above 10%	62	62	-
USD - fixed at 8% and below	14,745	13,540	1,205
Unsecured bank loans			
RUR - fixed at 9% - 12%	4,366	4,366	-
USD - fixed at 5% - 12%	3,378	3,378	-
Secured loans from third parties			
RUR - fixed at 12%	866	866	-
Unsecured loans from third parties			
RUR - fixed at 0%	299	298	1
RUR - fixed at 0.1% - 10%	662	659	3
RUR - fixed at 11% - 18,5%	743	743	-
RUR - fixed at 20% - 29%	146	146	-
USD - fixed at 3% - 12%	67	10	57
Unsecured loans from related parties			
RUR - fixed at 0%	169	169	-
USD - fixed at 10%	294	294	-
	39,788	**31,406**	**8,382**

2007 **mln RUR**	**Total**	**Under 1 year**	**1 - 5 years**	**Over 5 years**
Secured bank loans:				
RUR - fixed at 8% - 10%	15,578	8,189	7,389	-
USD - fixed at 8% - 12%	1,727	549	1,178	-
Unsecured bank loans				
RUR - fixed at 8% - 10%	10,168	8,701	1,467	-
USD - fixed at 5% - 12%	3,676	3,676	-	-
Bonds, PIK-05				
RUR – fixed at 10.2% - 13% effective 11.7%	560	560	-	-
Unsecured loans from third parties				
RUR - fixed at 0%-2%	483	371	31	81
RUR - fixed at 5% - 7%	200	-	200	-
RUR - fixed at 10% - 15%	120	120	-	-
USD - fixed at 2%	5	3	2	-
USD - fixed at 3%	1,228	1,228	-	-
USD - fixed at 13%	326	326	-	-
Unsecured loans from related parties				
RUR - fixed at 0%	169	169	-	-
RUR - fixed at 11%	23	-	23	-
Overdrafts in related bank				
RUR - fixed at 14%	9	9	-	-
Bank overdrafts				
RUR - fixed at 9%	1	1	-	-
	34,273	**23,902**	**10,290**	**81**

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 principal and interest.

At 31 December 2008 the Group breached the following financial covenants in various loan agreements: debt to EBITDA, EBITDA to interest expense, debt to equity ratio and net debt to EBITDA. The breach of the above financial covenants may result in the request for early repayment of loans with a carrying amount of RUR 9,828 million. These loans were classified as current liabilities at 31 December 2008.

Loans as at 31 December 2008 include a loan of RUR 2,700 million, excluding interest, which became due on 27 December 2008. The Group has defaulted on the repayment of the loan and the lender filed a lawsuit against the Group on 12 January 2009 – refer note 33. The default caused the Group to breach a covenant in a loan agreement with an original maturity in 2010-2011, and the loan balance of RUR 533 million was reclassified as a current liability at 31 December 2008. As a result of the lawsuit, the Group breached various covenants in a number of other loans classified as long-term as at 31 December 2008 amounting to RUR 7,116 million.

26 Trade and other payables

	2008 mln RUR	2007 mln RUR
Non-current		
Accounts payable for construction works and other trade payables	1,419	1,564
Other liabilities	108	-
	1,527	**1,564**
Current		
Advances from customers	33,964	12,372
Accounts payable for construction works and other trade payables	14,500	3,976
Provision for construction costs to complete	9,815	6,821
Accounts payable for acquisition of development rights	6,580	-
Other taxes payable	5,216	4,395
Other payables	3,431	3,107
	73,506	**30,671**

Estimated costs to complete projects relate to projects in respect of which revenue has been recognised. They consist principally of landscaping and infrastructure works and the construction of local amenities, such as schools, which the Group is obliged to build as one of the conditions for obtaining the development right. The scope and estimated costs of such works are subject to significant estimation uncertainty.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 28.

27 Provisions

	2008 mln RUR	2007 mln RUR
Non-current		
Site restoration provision	46	68
	46	**68**
Current		
Site restoration provision	77	15
Tax provision	817	876
	894	**891**

Site restoration provision

At 31 December 2008, the Group recognised a provision for site restoration of RUR 123 million (31 December 2007: RUR 83 million) related to the Group's obligation to restore two mines located in Karelia and in the Moscow region.

Tax provisions

As at 31 December 2008 the balance of provision for tax consists of a provision of income tax of RUR 775 million and other taxes of RUR 42 million (31 December 2007: income tax of RUR 572 million and other taxes of RUR 304 million). The provision includes penalties.

In 2008 the Group reversed tax provision amounting RUR 429 million recognised in prior periods and accrued additional provisions of RUR 370 million.

28 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.

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 RUR	**2008**	**2007**
Available-for-sale financial assets	181	242
Loans and receivables	18,193	16,783
Cash and cash equivalents	3,153	17,056
	21,527	**34,081**

All of the Group's receivables are from customers located in Russian Federation and CIS.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
'000 RUR	**2008**	**2007**
State agencies	-	5,991
Receivables for services provided	8,572	5,436
Individual customers	-	118
	8,572	**11,545**

As at 31 December 2008, the Group does not have significant concentration of risk in relation to trade in other receivables. At 31 December 2007, 33% of the Group's trade and other receivables were attributable to one customer.

Impairment losses

The aging of trade receivables and loans receivable at the reporting date was:

mln RUR	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	15,028	(2,340)	14,966	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	13	(13)	-	-
More than one year	288	(288)	139	(139)
	15,329	**(2,641)**	**15,105**	**(139)**

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.

As discoles in note 2(d), the Group is attempting to conclude a standstill agreement with all of its significant lenders in order to defer all repayment of borrowings for a period of four months. This period will be used to negotiaite new repayment schedules, additional facilities and the most appropriate mechanism for the debt restructuring process.

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 25 the Group has breached covenants in many of its loan agreements as at 31 December 2008, and breached covenants in the remainder of its loan agreements in January 2009. Therefore, the lenders have the right to claim for the repayments before the contracted maturities:

2008	Average interest rate							
mln RUR	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	6-12%	6-12%	7,598	146	-	-	-	7,744
Trade and other payables			27,746	-	1,527	-	-	29,273
Bank overdraft			-	-	-	-	-	-
Interest payable			260	-	-	-	-	260
			47,107	**9,196**	**6,917**	**2,942**	**-**	**66,162**

2007 mln RUR	Average interest rate Contrac-tual	 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%	4,851	3,887	7,396	1,171	-	17,305
Bonds	10-13%	12%	560	-	-	-	-	560
Finance lease liabilities		16-25%	85	35	77	12	-	209
Unsecured bank loans	6-12%	6-12%	3,911	8,466	1,467	-	-	13,844
Trade and other payables			13,643	-	2,296	-	-	15,939
Bank overdraft	9-15%	9-15%	10	-	-	-	-	10
Interest payable			158	-	-	-	-	158
			23,218	**12,388**	**11,236**	**1,183**	**-**	**48,025**

(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 (RUR). The currency in which these transactions primarily are denominated is 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 RUR, 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 RUR	**USD-denominated 2008**	**USD-denominated 2007**
Cash	103	230
Short-term investments	1,217	181
Receivables	53	2,755
Trade payables	(11)	-
Other payables	(575)	-
Promissory notes	(2,812)	-
Loans and borrowings	(18,484)	(6,962)
	(20,509)	**(3,796)**

The RUR/USD exchange rates at 31 December 2008 and 31 December 2007 were 29.38 and 24.55 respectively. The average RUR/USD rates for the year were 24.86 and 24.64, respectively.

Sensitivity analysis

A 20% strengthening of the RUR against the USD at 31 December 2008 and 31 December 2007 would have increased equity and profit by RUR 4,102 million and RUR 759 million respectively. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

A 20% weakening of the RUR against the above currencies at 31 December 2008 and 31 December 2007 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	
mln RUR	**2008**	**2007**
Fixed rate instruments		
Financial assets	6,736	3,429
Financial liabilities	(40,135)	(34,640)
	(33,399)	**(31,211)**

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 2008 and 31 December 2007, 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(e) and 4(f).

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

'000 RUR	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Loans and receivables	17,382	17,377	16,783	16,783
Available-for-sale financial assets	181	181	242	242
Held-to-maturity investments	811	808	-	-
Cash and cash equivalents	3,153	3,153	17,056	17,056
Financial liabilities measured at amortised cost	40,135	39,592	34,640	34,640
	61,662	**61,111**	**68,721**	**68,721**

The basis for determining fair values is disclosed in note 4.

(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 return on capital. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

During 2008 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.

29 Commitments

(a) Commitments under co-investment and construction services contracts

During 2008 and 2007 the Group entered into a number of co-investment contracts, where payments have not been made in full, and contracts to provide construction services. However, significant funds were attracted from individuals through pre-sale agreements to finance the projects. Therefore, the Group has contractual obligations to complete the buildings within normal operating cycle of development. As at 31 December 2008 commitments under these contracts totalled approximately RUR 212,894 million (2007: RUR 123,965 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 2008 and 2007 the Group had no contractual commitments to acquire property, plant and equipment.

30 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 outsourcing contracts. The amount of RUR 1,526 million related to accounts payable is claimed at the end of the 2008. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results.

Since the year end, a lender filed a law suit against the Group demanding the repayment of a loan due on 27 December 2008 – see note 33.

(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, refer note 27. 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 equity accounted investee restructuring

During 2008, the Group undertook a restructuring involving an equity accounted investee at prices for tax purposes only which management believed were fair values consistent with applicable tax law. However, based on the uncertainty of the transfer pricing rules, the tax authorities could take a different position and attempt to assess additional tax, penalties and late-payment interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules, but could be significant. 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.

(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.

(e) Financial guarantees

As at 31 December 2008 the Group had not provided any significant financial guarantees to entities outside the Group.

31 Related party transactions

(a) Control relationships

The Company is ultimately controlled by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the "Majority Shareholders"). They also have interests in a number of other businesses outside of the Group.

As at 31 December 2008 Mr. Pisarev and Mr. Zhukov, the Majority Shareholders, indirectly own 74% (2007: 84%) of the Company's issued share capital through Cyprus and British Virgin Islands based shareholder structures. At both reporting dates there were no immediate or ultimate parent companies.

(b) Transactions with management and close family members

Key management and their close family members control 74% (2007: 84%) of the voting shares of the Company.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2008 mln RUR	2007 mln RUR
Salaries and bonuses	403	111
Contributions to State pension fund	8	2
	411	113

(ii) Other transactions

As at 31 December 2008 an interest-bearing loan to an executive director amounting to RUR 15 million (2007: RUR 15 million) was included in other investments.

In May 2008 the executive director purchased from the Group non-residential property in building accepted in 2007 for the consideration of RUR 21 million. In 2009 the purchase agreement was cancelled and consideration paid was returned by the Group in full.

In 2007 the Group entered into an agreement with a related party for construction of office premises. As at 31 December 2008 an advance paid to the related party of RUR 401 million (2007: RUR 89 million) is included in the closing balance of property, plant and equipment.

(c) Transactions with other related parties

The Group's other related party transactions, which are with entities controlled by the Majority Shareholders, are disclosed below.

(i) Loans receivable from related parties

At 31 December 2008 the Group had an outstanding interest-bearing loan (11% per annum) receivable from a related party amounting to RUR 1,052 million (2007: RUR 895 million). The loan matures in December 2009.

At 31 December 2008 the Group had an outstanding interest-bearing loan (3% per annum) receivable from a related party amounting to RUR 31 million (2007: RUR 26 million). The loan matures in 2010.

The above loan is included in other investments.

In 2008 the Group received interest income on loans issued to related parties in the amount of RUR 128 million (2007: RUR 114 million)

(ii) Loans payable to related parties

The outstanding loans payable to related parties controlled by the shareholders of the Group at 31 December 2008 and 2007 are disclosed in note 25.

(iii) Accounts receivable from related parties

During 2008 the Group has rendered transportation services to a related party for a commission of RUR 4 million (2007: RUR 23 million). At 31 December 2008 the Group had the outstanding balance of accounts receivable of RUR 17 million (2007: RUR 23 million).

During 2007 the Group sold its shares in Bank Zhilfinans to a related party, the outstanding balance of accounts receivable from this operation at 31 December 2008 amounted to RUR 464 million (2007: RUR 464 million). The balance was repaid in 2009.

(iv) Accounts payable to related parties

During 2008, the Group participated as a contractor in construction contracts with related parties and the outstanding balance of accounts payable from this operation at 31 December 2008 amounted to RUR 2,839 million (2007: RUR 1,510 million).

At 31 December 2008 the Group had promissory notes payable to related party of RUR 17 million (2007: nil).

(v) Transactions with Bank ZhilFinance

A summary of transactions and balances of settlements with Bank ZhilFinance, is as follows:

	2008		**2007**	
mln RUR	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Loans received during the year	249	-	61	-
Loans repaid during the year	234	-	87	-

The loans from Bank ZhilFinance bear interest of 15% per annum and are repayable upon demand.

During 2008 the Group acquired a mortgage loan portfolio from the bank for a consideration of RUR 2,376 million. The mortgage loans have been provided by the bank to 3rd party individuals who entered into preliminary agreements with the Group to acquire flats. The loans are secured with the underlying flats. The loans are primarily RUR denominated and bear interest of 13.5% to 16% per annum. The balance of loans as at 31 December 2008 is included in other investments.

As at 31 December 2008 and 31 December 2007, the Group's cash deposits in Bank ZhilFinance amounted to RUR 2,149 million and RUR 890 million, respectively.

(vi) Transactions with related parties under co-investment agreements

Starting from 2005, the Group provides loans to ZAO Park-City Investments, an equity accounted investee, to finance development of a land plot in the center of Moscow. During 2008, the Group issued loans of RUR 410 million. The loans as at 31 December 2008 amounted to RUR 481 million (31 December 2007: RUR 71 million). The loans are included in advances to contractors, as the development rights for the land plot are registered with the related party.

(vii) Transactions with PSG Osnova

During 2008 the Group paid RUR 23 million (2007: RUR 39 million) to PSG Osnova under a property insurance contract. Outstanding balance of accounts payable to PSG Osnova as at 31 December 2008 amounted to RUR 15 million (2007: RUR 6 million).

32 Significant subsidiaries

As of 31 December 2008 the Group controlled 170 legal entities (31 December 2007: 103). 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	2008	2007	2008	2007
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%
OAO DSK-2	Russia	98%	98%	98%	98%
OAO DSK-3	Russia	87%	84%	87%	84%
OOO PIK-Development	Russia	100%	100%	100%	100%
OOO PIK-Invest	Russia	100%	100%	100%	100%
OAO 100 KGI	Russia	92%	92%	92%	92%
OOO MFS-PIK	Russia	100%	100%	100%	100%
OOO TD Osnova	Russia	100%	100%	100%	100%
OOO PIK Nerud	Russia	100%	100%	100%	100%
Viniso Investments Limited	Cyprus	75%	75%	75%	75%
OAO 480 KZHI	Russia	100%	100%	100%	100%
Sturm Properties Limited	Cyprus	54%	50%	54%	50%

33 Events subsequent to the balance sheet date

Sale of assets

In February 2009, the Group sold 100% of its wholly owned subsidiary OOO Rostovkapstroy to a third party for a total consideration of RUR 151 million.

Change in shareholders

In April 2009, the Lacero Trading ltd ultimately controlled by the Nafta Group acquired a 25% stake in the Group from its Major Shareholders. As a result of this transaction the Major Shareholders' share reduced to approximately 49% of the Company's issued share capital.

Appointment of restructuring advisor

In April 2009, the Group engaged OOO Sberbank Capital, the investment banking division of OAO Sberbank, to restructure the Group's debts. The Group's borrowings from OAO Sberbank as at 31 December 2008 amounted to RUR 14,226 million. The bank was granted the right to negotiate, on behalf of the Group, new repayment schedules with the Group's creditors.

Sales transactions with a state agency

The Group has offered to sell a significant number of apartments in the Moscow region and other regions of Russia to a state agency. If completed, the sale would provide a substantial cash inflow to the Group. As at the date that these consolidated financial statements were approved for issuance, the Group had not obtained a commitment from the agency to purchase the apartments.

Cost reduction

In October 2008, the Group implemented a cost reduction program that management expects to lead to a reduction in operating costs of approximately RUR 250 million per month.

New loans obtained in 2009

Subsequent to the year end, the Group obtained loans of RUR 2,000 million to finance its current operations.

Claim for repayment of major loan

One of the Group's lenders filed a lawsuit against the Group on 12 January 2009 for repayment of a loan amounting to approximately RUR 2,700 million that was due on 27 December 2008. On 14 April 2009 the court announced its decision in favor of the lender. The claim resulted in breaches of covenants of several of the Group's loans with a carrying amount of approximately RUR 14,258 billion.

Deferral of loan repayments

On 27 April 2009 one of the Group's major lenders agreed to defer the repayment of loans totalling approximately RUR 3,600 million to the period from July 2009 to March 2010.

Devaluation of the Rouble

Subsequent to the reporting date the Rouble was devalued by approximately 20% against the USD. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided in note 28(d)(i) shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.