OAO Group of Companies PIK
Consolidated Financial Statements
for the year ended
31 December 2011

Contents

Consolidated Statement of Financial Position

In million RUB	Note	2011	2010 (restated)	2009 (restated)	1 January 2009 (restated)
ASSETS					
Non-current assets					
Property, plant and equipment	17	9,023	9,452	10,390	12,840
Intangible assets	18	26,843	22,844	22,072	27,455
Investments in equity accounted investees	19	-	-	3,460	3,522
Other investments		8	2	997	169
Deferred tax assets	21	897	334	86	71
Total non-current assets		**36,771**	**32,632**	**37,005**	**44,057**
Current assets					
Inventories	22	76,026	65,055	60,760	70,592
Other investments		291	778	872	4,223
Income tax receivable		1,081	87	87	519
Trade and other receivables	23	11,731	11,877	10,598	14,124
Cash and cash equivalents		2,874	4,350	3,417	3,153
Assets held for sale	6	-	4,803	-	-
Total current assets		**92,003**	**86,950**	**75,734**	**92,611**
Total assets		**128,774**	**119,582**	**112,739**	**136,668**
EQUITY AND LIABILITIES					
Equity	24				
Share capital		30,843	30,843	30,843	30,843
Additional paid-in capital		(8,424)	(8,424)	(8,424)	(8,424)
Treasury shares		-	-	-	(2,428)
Retained earnings		(22,706)	(27,351)	(21,263)	(7,740)
Total equity attributable to equity holders of the Company		**(287)**	**(4,932)**	**1,156**	**12,251**
Non-controlling interest		505	345	555	978
Total equity		**218**	**(4,587)**	**1,711**	**13,229**
Non-current liabilities					
Loans and borrowings	25	27,549	4,916	6,277	8,393
Trade and other payables	26	142	20	1,128	1,527
Provisions	27	-	-	-	46
Deferred tax liabilities	21	1,687	1,533	4,235	4,511
Total non-current liabilities		**29,378**	**6,469**	**11,640**	**14,477**
Current liabilities					
Loans and borrowings	25	19,522	39,062	32,013	31,742
Trade and other payables	26	54,824	53,776	51,740	64,568
Provisions	27	24,561	21,608	14,383	12,526
Income tax payable		271	423	1,252	126
Liabilities related to assets held for sale	6	-	2,831	-	-
Total current liabilities		**99,178**	**117,700**	**99,388**	**108,962**
Total liabilities		**128,556**	**124,169**	**111,028**	**123,439**
Total equity and liabilities		**128,774**	**119,582**	**112,739**	**136,668**

These consolidated financial statements were approved by Management on 27 April 2012 and were signed on its behalf by:

Pavel A. Poselenov
President

Andrey M. Rodionov
Vice-President, Economics and Finance

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the reissued consolidated financial statements set out on pages 8 to 63.

Consolidated Statement of Comprehensive Income

In million RUB	**Note**	**2011**	**2010 (restated)**	**2009 (restated)**
Revenue	8	45,991	38,090	41,175
Cost of sales	9	(36,588)	(35,198)	(32,588)
Gross profit		**9,403**	**2,892**	**8,587**
Gain/(loss) on disposal of subsidiaries and development rights, net	11	2,298	368	(1,272)
Distribution expenses	12	(624)	(488)	(477)
Administrative expenses	13	(4,205)	(3,372)	(3,890)
Reversal of impairment loss and impairment losses	20	2,877	(1,106)	(4,671)
Other income and expenses, net	15	1,621	(373)	(391)
Finance income	14	1,600	325	771
Finance costs	14	(6,558)	(6,290)	(10,423)
Share of loss of equity accounted investees, net of income tax		-	(52)	(41)
Profit/(loss) before income tax		**6,412**	**(8,096)**	**(11,807)**
Income tax (expense)/benefit	16	(1,607)	2,051	(868)
Profit/(loss) from continuing operations		**4,805**	**(6,045)**	**(12,675)**
Profit from discontinued operations, net of tax	6	-	-	1,193
Profit/(loss)and total comprehensive income for the year		**4,805**	**(6,045)**	**(11,482)**
		-	-	-
Profit/(loss) and total comprehensive income for the year		**4,805**	**(6,045)**	**(11,482)**
Attributable to:				
Owners of the Company		4,645	(6,088)	(11,109)
Non-controlling interest		160	43	(373)
Total comprehensive income/(loss) for the year		**4,805**	**(6,045)**	**(11,482)**
Basic and diluted profit/(loss) per share		**9.42**	**(12.34)**	**(22.63)**
Continuing operations				
Basic and diluted profit/(loss) per share		**9.42**	**(12.34)**	**(25.07)**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the reissued consolidated financial statements set out on pages 8 to 63.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					Non-controlling interest	Total equity
In million RUB	**Share capital**	**Additional paid-in-capital**	**Treasury shares**	**Retained earnings**	**Subtotal**		
At 1 January 2009 (as reported)	**30,843**	**(8,424)**	**(2,428)**	**(5,102)**	**14,889**	**978**	**15,867**
Change in accounting policy	-	-	-	(1,281)	(1,281)	-	**(1,281)**
Restatement	-	-	-	(1,357)	(1,357)	-	**(1,357)**
At 1 January 2009 (restated)	**30,843**	**(8,424)**	**(2,428)**	**(7,740)**	**12,251**	**978**	**13,229**
Loss and total comprehensive income for the year, restated	-	-	-	(11,109)	(11,109)	(373)	**(11,482)**
Own shares sold	-	-	2,428	(2,204)	224	-	**224**
Transactions with owners, recorded directly in equity	-	-	-	(210)	(210)	-	**(210)**
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	(61)	**(61)**
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	11	**11**
Total transactions with owners	**-**	**-**	**-**	**(210)**	**(210)**	**(50)**	**(260)**
At 31 December 2009 (restated)	**30,843**	**(8,424)**	**-**	**(21,263)**	**1,156**	**555**	**1,711**
Loss and total comprehensive loss for the year	-	-	-	(6,088)	(6,088)	43	**(6,045)**
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	(248)	**(248)**
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	(5)	**(5)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(253)**	**(253)**
At 31 December 2010 (restated)	**30,843**	**(8,424)**	**-**	**(27,351)**	**(4,932)**	**345**	**(4,587)**
Profit and total comprehensive income for the year	-	-	-	4,645	4,645	160	**4,805**
At 31 December 2011	**30,843**	**(8,424)**	**-**	**(22,706)**	**(287)**	**505**	**218**

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 63.

Consolidated Statement of Cash Flows

In million RUB	2011	2010 (restated)	2009 (restated)
OPERATING ACTIVITIES			
Profit/(loss) for the year	**4,805**	**(6,045)**	**(11,482)**
Adjustments for:	-		
Depreciation and amortisation	736	759	860
Impairment losses and reversal of impairment losses, net	(2,877)	1,106	4,671
Gain on termination of long-term leases	(585)	(2,032)	-
Foreign exchange gain/(loss), net	(179)	96	642
(Gain)/loss on disposal of property, plant and equipment	39	(6)	(16)
Impairment loss on financial assets and provision for doubtful accounts	564	595	2,147
Gain from disposal of development rights and subsidiaries	(2,298)	(368)	(43)
Share of loss of equity accounted investees	-	52	41
Interest expense, including penalties payable	4,682	5,599	7,634
Change in non-controlling interest in limited liability companies	123	-	-
Interest income	(151)	(325)	(400)
Income tax expense/(benefit)	1,607	(2,051)	868
Cash from / (used in) operating activities before changes in working capital and provisions	**6,466**	**(2,620)**	**4,922**
(Increase)/decrease in inventories	(9,774)	(5,533)	6,051
Decrease /(increase) in trade and other receivables	748	(685)	1,519
Increase /(decrease) in trade and other payables	610	3,076	(9,241)
Increase in provision for cost to complete	1,319	6,096	2,142
Cash flows from operations before income taxes and interest paid	**(631)**	**334**	**5,393**
Income taxes paid	(1,529)	(1,099)	(218)
Interest paid	(5,891)	(4,051)	(3,987)
Net cash (used in)/from operating activities	**(8,051)**	**(4,816)**	**1,188**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment	26	136	26
Interest received	-	14	22
Acquisition of property, plant and equipment	(549)	(299)	(267)
Acquisition of development rights and other intangible assets	(1,178)	-	(223)
Acquisition of equity accounted investees	-	-	(2,208)
Loans given	(122)	(28)	-
Proceeds from sale of development rights/interest in development rights	3,322	1,492	-
Proceeds from disposal of subsidiaries	-	-	902
Repayment of loans advanced to individuals	11	108	486
Proceeds from repayment of loans given	581	11	565
Net cash from / (used in) investing activities	**2,091**	**1,434**	**(697)**
FINANCING ACTIVITIES			
Proceeds from borrowings	17,347	12,437	25,197
Repayment of borrowings	(12,863)	(8,122)	(25,202)
Acquisition of non-controlling interests	-	-	(61)
Proceeds from sale of own shares	-	-	224
Transactions with founding shareholders	-	-	(385)
Net cash from/(used in) financing activities	**4,484**	**4,315**	**(227)**
Net (decrease) /increase in cash and cash equivalents	(1,476)	933	264
Cash and cash equivalents at beginning of year	4,350	3,417	3,153
Cash and cash equivalents at end of year	**2,874**	**4,350**	**3,417**

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 63.

1 Background

(a) Organisation and operations

OAO Group of Companies PIK (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise of closed and open joint stock companies and limited liability companies incorporated under requirements of the Civil Law of the Russian Federation and entities registered in Cyprus and in the British Virgin Islands. The Company was established as a privately owned enterprise in 1994. Since 1 June 2007 the Company’s shares are traded on the London Stock Exchange (in the form of global depositary receipts), Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX) in Russia.

The Company’s registered office is 19 Barrikadnaya st., Moscow, 123001, Russian Federation.

The primary activities of the Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements. During 2011, 2010 and 2009 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

As at 31 December 2011 the Nafta Moskva Group and its ultimate beneficial owner Mr. Suleiman Kerimov controlled approximately 38,3% of the Company’s ordinary shares. The Nafta Moskva Group is the beneficial owner of Lacero Trading Ltd, Brigantia Limited and Holborner Services Limited.

The main shareholders of the Group are:

	2011	**2010**	**2009**
Lacero Trading Limited (Nafta Moskva Group)	1.47%	18.3%	25.00%
Maritrade Investments Limited	-	12.5%	14.36%
Forienst Investments Limited	-	10.5%	14.36%
Holborner Services Limited	20%	20%	10.66%
Artertesia Consulting Limited	6.7%	6.7%	-
Brigantia Limited	16.84%	-	-
VTB Bank	8.84%	-	-
Others	46.15%	32.00%	35.62%
	100.00%	**100.00%**	**100.00%**

(b) Business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except:

- financial investments classified as available-for-sale are stated at fair value;
- property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs at 1 January 2004;
- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 20 *Inventory obsolesce provision;*
- Note 23 *Allowance for trade receivables;*
- Note 27 *Provisions* for taxes and other provisions*;*
- Note 8 *Revenue recognition (percentage of completion);*
- Note 30 *Contingencies.*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 20 *Key assumptions used in discounted cash flow projections; Impairment;*
- Note 27 *Provisions* related to provision for costs to complete*;*

(e) Change in accounting policy

In 2011 the Group changed its accounting policy with respect to the capitalisation of borrowing costs.

Previously borrowings costs were capitalised as part of construction work in progress intended for sale. Effective for the annual financial statements as at and for the year ended 31 December 2011, the Group applies the exemption from the International Accounting Standard IAS 23 Borrowing costs, which scopes out inventories that are manufactured or otherwise produced in large quantities on a repetitive basis, and, as a result, does not include such borrowing costs into the cost of constructed buildings but expenses them as incurs.

The Group's major business is construction of mass-market high-rise residential properties out of pre-fabricated panels and sale of flats to the end customers, such production is considered to be manufacturing of inventories (flats) in large quantities on a repetitive basis. Management believes that each project and, thus, apartments constructed within each project, is considered to be performed on a repetitive basis. In substance, the output for each project (apartments) is very similar to each other in terms of quality and design, and the projects can be combined for doing the "repetitive basis" test. Management decided to apply the exemption because allocation of borrowing costs to residential property under construction involves significant practical difficulties. In addition, management believes that the costs of capitalisation exceed the potential benefits for the users of the financial statements.

Such change will accelerate recognition of borrowing costs in the statement of income by approximately 18-24 months, an average construction period for a building block.

The change in the accounting policy was applied retrospectively by changing the comparative information as at 31 December 2010, 2009 and 1 January 2009, the earliest period presented in these consolidated financial statements. The effect of the change is presented in Note 2(f).

(f) Other adjustments to prior periods

In 2011 the Group identified certain misstatements in its previously issued financial statements relating to costs of residential premises and provisions for project costs. Management believes that the prior period errors are not significant. However, as the financial statements are restated for the effect of change in accounting policy, management considered it to be more appropriate to correct the misstatements in the periods to which they relate. Hence, the opening statement of financial position as at 1 January 2009 was restated. The correction of the misstatements did not impact profits reported for 2010 and 2009.

The change in accounting policy and other adjustments had the following effect on previously issued financial statements:

As at 1 January 2009 :

	As reported	Change in accounting policy	Adjustment	As restated
Inventories	73,218	(1,503)	(1,123)	70,592
Total assets	**139,294**	**(1,503)**	**(1,123)**	**136,668**
Trade and other accounts payable	64,243	-	325	64,568
Provisions	12,278	-	248	12,526
Total current liabilities	**108,389**	**-**	**573**	**108,962**
Deferred tax liability	5,072	(222)	(339)	4,511
Total non-current liabilities	**15,038**	**(222)**	**(339)**	**14,477**
Retained earnings	(5,102)	(1,281)	(1,357)	(7,740)
Total equity	**15,867**	**(1,281)**	**(1,357)**	**13,229**
Total equity and liabilities	**139,294**	**(1,503)**	**(1,123)**	**136,668**

As at 31 December 2009 :

	As reported	Change in accounting policy	Adjustment	As restated
Inventories	63,379	(1,496)	(1,123)	60,760
Total assets	**115,358**	**(1,496)**	**(1,123)**	**112,739**
Trade and other accounts payable	51,415	-	325	51,740
Provisions	14,135	-	248	14,383
Total current liabilities	**98,815**	**-**	**573**	**99,388**
Deferred tax liability	4,795	(221)	(339)	4,235
Total non-current liabilities	**12,200**	**(221)**	**(339)**	**11,640**
Retained earnings	(18,631)	(1,275)	(1,357)	(21,263)
Total equity	**4,343**	**(1,275)**	**(1,357)**	**1,711**
Total equity and liabilities	**115,358**	**(1,496)**	**(1,123)**	**112,739**
Cost of sales	(33,218)	630	-	(32,588)
Gross profit	**7,957**	**630**	**-**	**8,587**
Finance costs	(9,801)	(622)	-	(10,423)
Loss before tax	**(11,815)**	**8**	**-**	**(11,807)**
Income tax expence	(866)	(2)	-	(868)
Loss for the year	**(11,488)**	**6**	**-**	**(11,482)**

As at 31 December 2010 :

	As reported	Change in accounting policy	Adjustment	As restated
Inventories	67,634	(1,456)	(1,123)	65,055
Total assets	**122,161**	**(1,456)**	**(1,123)**	**119,582**
Trade and other accounts payable	53,451	-	325	53,776
Provisions	21,360	-	248	21,608
Total current liabilities	**117,127**	**-**	**573**	**117,700**
Deferred tax liability	2,093	(221)	(339)	1,533
Total non-current liabilities	**7,029**	**(221)**	**(339)**	**6,469**
Retained earnings	(24,759)	(1,235)	(1,357)	(27,351)
Total equity	**(1,995)**	**(1,235)**	**(1,357)**	**(4,587)**
Total equity and liabilities	**122,161**	**(1,456)**	**(1,123)**	**119,582**
Cost of sales	(35,598)	400	-	(35,198)
Gross profit	**2,492**	**400**	**-**	**2,892**
Finance costs	(5,930)	(360)	-	(6,290)
Loss before tax	**(8,136)**	**40**	**-**	**(8,096)**
Income tax benefit	2,051	-	-	2,051
Loss for the year	**(6,085)**	**40**	**-**	**(6,045)**

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in 2(e), which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions of controlling shareholdings in entities in which there is no integrated set of activities conducted and assets are managed for the purpose of providing a return to investors, are accounted for as purchases of assets. The consideration paid for such companies (typically entities holding development rights) is allocated to the identifiable assets and liabilities based on their relative fair values.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 23, loans issued as presented in note 25.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)) and foreign currency differences on available-for-sale debt instruments (see note 3 (b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities and debt securities.

(i) *Non-derivative financial liabilities*

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 20-60 years
- plant and equipment 5-25 years
- fixtures and fittings 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) that arises on the acquisition of subsidiaries is included in intangible assets.

Acquisitions prior to 1 January 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions *between* 1 January 2004 *and 1 January 2010*, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Development rights

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognised in the profit or loss as an expense as incurred.

Expenditure on obtaining development rights, necessary to start construction activities, are recognised in intangible assets if the projects are technically and commercially feasible and the Group has sufficient resources to accomplish the development of the projects. The cost of development rights includes the cost of obtaining the right to lease a land plot and the cost of obtaining the registered permit to construct a specific property.

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

When the Group does not act as a developer, but participates in projects in the capacity of an investor or co-investor, the cost of development rights contributed to such projects is recognised within inventories, refer note 3(g) below.

(iii) Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(v) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position.

(g) Inventories

Inventories include construction work in progress when the Group acts in the capacity of a developer and the real estate is intended for sale, and prepayments made under investment and co-investment agreements for apartments intended for sale, raw materials, other work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs. These costs are allocated to completed individual apartments on a prorate basis relative to their size.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project.The Group uses exemption for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis, therefore borrowing costs related to construction of mass residential premises are not capitalised (note 2(e)). Where real estate property is not being actively developed, net rental and finance costs are taken to the profit or loss.

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Such investment contracts may require that the Group:

- for no consideration delivers certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc. The cost incurred and the liabilities assumed are presented on a gross basis in the statement of financial position;
- constructs certain infrastructure facilities in exchange of the ability to develop the properties, e.g., electricity, sewage systems, roads;
- constructs certain objects for public use where the expected compensation from the buyers will not reimburse the Group with the costs to be incurred, e.g., certain parking spaces;

- enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such contracts are negotiated with the local authorities as part of acquisition of the development rights, and they cannot be assessed as onerous (as described in note 3(e)(ii)), the costs to complete the construction are included in the total costs of construction of properties which these development rights relate to.

The cost of inventories, other than construction work in progress intended for sale and prepayments for real estate properties intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the Group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

The Group's normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the balance sheet date.

(h) Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(i) Employee benefits

(i) Contributions to state pension fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The grant-date fair value of share-based payment award to employees is recognised as an employee expense, with a corresponding increase in equity, other the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense ia based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Tax provisions

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

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

As described in note 3(g), the Group enters into investment or co-investment agreements to develop residential buildings, the contracts may require that the Group delivers certain properties to the local authorities upon completion of the construction or/and construct certain infrastructure facilities in exchange for the ability to develop the property for no consideration. In addition the Group enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such agreements cannot be directly attributed to any of the Group’s projects and the agreements are assessed as onerous, a provision is recognised in the Group’s consolidated financial statements when entering into the agreement to complete the construction. The provision is estimated based on the present value of estimated unavoidable net costs to complete the construction.

(iii) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(k) Revenues

(i) Revenue from sale of real estate properties

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer’s request.

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of real estate properties, transfer usually occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings ("State commission"). When contracts for sale of real estate are concluded after the State commission has accepted the construction of the respective building, revenue is recognised immediately.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

(ii) Revenue from construction services

Revenue from construction services rendered is recognised in the profit or loss on a monthly basis in accordance with the actual volume of works completed. The stage of completion is assessed monthly and fixed in acts of completed works signed by the Group and the customer. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects, where one Group entity participates as an investor/co-investor while a third party acts as a developer. At the same time other Group entities may provide construction services to the developer. Revenues from construction services relating to such projects are treated as an intercompany transaction and eliminated against related costs.

(iii) Other sales

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

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss 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.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 5).

Segment results that are reported to the Group's CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

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

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements.

Standards	**Effective for annual periods beginning on or after**
Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of other Comprehensive Income*	1 July 2012
Amendment to IAS 12 *Income Taxes*	1 January 2012
IAS 19 *Employee Benefits*	1 July 2013
IAS 27 *Consolidated and Separate Financial Statements*	1 January 2013
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2013
IFRS 9 *Financial Instruments*	1 January 2015
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 11 *Joint Arrangements*	1 January 2013
IFRS 12 *Disclosure of Interests in other entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

Amended IAS 1 *Presentation of Financial Statements* requires a separate presentation of items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Amended IAS 1 will be effective for annual periods beginning on or after 1 July 2012 and requires retrospective application.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.*

The first and second phases of IFRS 9 *Financial Instruments* were finalised in November 2009 and October 2010, respectively, and relate to the recognition and measurement of financial assets and liabilities. The Group recognises that the new standard introduces many changes to the accounting for financial instruments. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued during 2011.

IFRS 13 *Fair Value Measurement* provides a revised definition of fair value, establishes a framework for measuring fair value and sets out expanded disclosure requirements for fair value measurements. IFRS 13 will be effective for annual periods beginning on or after 1 January 2013 and requires prospective application.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

During 2010 the Group changed the structure of its internal organisation in a manner that caused the composition of its reportable segments to change. The corresponding information for earlier periods was restated accordingly.

Up to 31 December 2009 the Group analysed its operations on the basis of three reportable segments: Real estate development, Construction and Maintenance. Effective from 1 January 2010 the Group distinguishes four reportable segments which are the Group's strategic business units:

- *Real estate development*: The implementation of developments planned and undertaken by the Group, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing real estate projects to potential buyers.
- *Construction segment*: Contracting activities, production and assembly of prefabricated panel buildings and related activities.
- *Industrial segment:* Production of concrete panels, window frames and other construction materials.
- *Other:* Real estate maintenance services provided to tenants, transportation services and other activities.

There are varying levels of integration between the Real estate development, Construction and Industrial reportable segments. This integration includes construction services provided during the construction of the real estate for further reselling, production of construction materials. Inter-segment pricing may not be determined on an arm's length basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Segments profit and losses

	Real estate development			Construction segment			Industrial segment			Other			Total		
mln RUB	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
External revenues	35,114	26,334	30,684	5,750	7,411	6,925	2,218	1,581	2,130	2,902	2,610	2,163	45,984	37,936	41,902
Inter-segment revenue	-	-	-	16,202	16,191	11,751	2,663	2,023	1,041	1,960	2,022	2,677	20,825	20,236	15,469
Total revenue for reportable segments	35,114	26,334	30,684	21,952	23,602	18,676	4,881	3,604	3,171	4,862	4,632	4,840	66,809	58,172	57,371
Interest income	257	614	1,355	1	1	-	-	-	8	1	8	60	259	623	1,423
Interest expense	(4,841)	(3,981)	(5,645)	(38)	(56)	(97)	-	-	(41)	(149)	(131)	(203)	(5,028)	(4,168)	(5,986)
Depreciation and amortisation	(32)	(346)	(88)	(180)	(177)	(191)	(154)	(107)	(155)	(228)	(137)	(139)	(594)	(767)	(573)
Reportable segment profit/(loss) before income tax	7,288	(7,683)	2,810	780	825	193	(136)	(287)	(395)	(616)	293	(551)	7,316	(6,852)	2,057

(ii) Geographical information

The Real estate development, Industrial segment and Maintenance segments are managed on the Russia basis, but operate in three principal geographical areas, Moscow, the Moscow Region and the Other Regions.

In presenting information on the basis of geographical information, revenue is based on the geographical location of development sites.

	Revenues		
	2011 mln RUB	**2010 mln RUB**	**2009 mln RUB**
Moscow	24,241	17,835	21,940
Moscow region	16,302	16,328	14,354
Other regions	5,441	3,773	5,608
	45,984	**37,936**	**41,902**

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

	2011 mln RUB	**2010 mln RUB**	**2009 mln RUB**
Revenues			
Total revenue for reportable segments	66,809	58,172	57,371
Revenue of entities not included in reportable segments	93	738	157
Elimination of inter-segment revenue	(20,825)	(20,236)	(15,469)
Elimination of discontinued operations	-	-	(825)
Other	(86)	(584)	(59)
Consolidated revenue	**45,991**	**38,090**	**41,175**
Profit or loss			
Segment profit/(loss) before tax	7,316	(6,852)	2,057
Elimination of inter-segment profits	-	-	(20)
Elimination of discontinued operations and effect of reclassification to assets held for sale	-	-	(925)
Long-term lease agreements termination	-	2,032	-
Differences in accruals of impairment of property, plant and equipment, intangible assets, inventories	(1,412)	(1,106)	(4,671)
Timing differences relating to recognition of costs	371	356	(4,176)
Impairment losses on financial assets	-	-	(481)
Differences in accruals of provision for doubtful accounts	17	(595)	(1,666)
Difference in accruals of penalties and fines	135	(1,854)	(2,021)
Other expenses	(15)	(75)	96
Consolidated profit/(loss) from continuing operations before income tax	**6,412**	**(8,096)**	**(11,807)**

(iv) Major customers

In 2011, 2010 and 2009 no customer represented more than 10% of the Group's total revenue.

6 Assets held for sale and discontinued operations

ZAO Ochakovsky ZhBK

In July 2010 Management signed the agreement with a third party to sell ZAO Ochakovsky ZhBK, a subsidiary representing development rights for a land plot located in south of Moscow for the total consideration of RUB 2,987 million and received an advance payment of RUB 1,492 million under this agreement as of 31 December 2010.

Park-City Project

In December 2010 the Group decided to sell its share in Park-City project, an equity accounted investee, for a consideration of RUB 1,720 million. The carrying amount of the net assets related to the project were reduced to the net selling price resulting in a loss of RUB 2,724 million. The liabilities related to the project were presented as liabilities related to assets held for sale.

As at 31 December 2010 the disposal group comprised the following assets and liabilities:

In million RUB	**ZAO Ochakovsky ZhBK**	**Park-City Project**	**Total**
Property, plant and equipment	17	-	17
Investments in equity accounted investees	-	1,752	1,752
Inventories	1,747	1,217	2,964
Trade and other receivables	70	-	70
Assets classified as held for sale	**1,834**	**2,969**	**4,803**
Current liabilities	1,582	1,249	2,831
Liabilities classified as held for sale	**1,582**	**1,249**	**2,831**

The assets classified as held for sale at 31 December 201 were sold in 2011(note 11).

(a) Discontinued operation in 2009

On 26 June 2009 management committed to a plan to sell its mining operations (OOO PIK-Nerud and all of its subsidiaries) included in the Industrial segment. The transaction was recognised in August 2009.

	2009 mln RUB
Results of discontinued operation	
Revenue	825
Expenses	(925)
Results from operating activities	(100)
Income tax expense	(20)
Results from operating activities, net of income tax	(120)
Gain on sale of discontinued operation	1,313
Profit for the year	1,193

The profit from discontinued operation of RUB 1,193 million is attributable to the owners of the Group. Of the loss from continuing operations of RUB 12,675 million, an amount of RUB 12,302 million is attributable to the owners of the Group.

	2009 mln RUB
Cash flows from/(used in) discontinued operation	
Net cash from operating activities	35
Net cash used in financing activities	(52)
Net cash used in discontinued operation	**(17)**

Effect of disposal on the financial position of the Group:

	Note	2009 mln RUB
Property, plant and equipment	17	(726)
Inventories	22	(473)
Trade and other receivables	23	(178)
Cash and cash equivalents	-	(15)
Deferred tax liabilities	21	38
Trade and other payables	26	590
Net assets and liabilities		(764)
Consideration received, satisfied in cash		871
Consideration received, satisfied in other financial assets		1,206
Total consideration received		2,077
Cash and cash equivalents disposed of		(15)

7 Acquisition of subsidiaries and non-controlling interest

(a) Acquisitions of subsidiaries

There were no significant acquisitions of controlling interests in businesses in 2011, 2010 and 2009.

(b) Acquisition of non-controlling interest

There were no acquisitions of non-controlling interest in 2011 and 2010.

In February 2009 the Group acquired an additional interest of approximately 40% in OAO NovorosGrajdanproekt increasing its ownership to 97%. The shares were received in exchange for the extinguishment of a loan of RUB 201 million receivable from the minority shareholders of the subsidiary. Since the fair value of the shares received amounted to RUB 61 million, the difference between the amortised cost of the loan and the fair value of the loan amounting to RUB 140 million was recognised as an impairment of the loan (included in finance expenses).

The transaction had the following effect:

	2009 mln RUB
Balance of the loan receivable before impairment	201
Impairment of financial asset recognised	(140)
Balance of the loan after impairment	61
Carrying amount of non-controlling interest	(61)
Net effect on equity	-

8 Revenue

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Revenues from sale of apartments	35,245	27,123	30,740
Revenues from construction services	5,179	6,110	7,164
Revenues from sale of construction materials and other sales	5,567	4,857	3,271
	45,991	**38,090**	**41,175**

(a) Revenue from sale of apartments

	2011	2010	2009
Completions			
Buildings	45	30	35
Sellable area, thousand square meters	494	433	470
Underground garages	3	3	-
Free standing garages	5	2	-
Sellable parking spaces	2,365	927	-
Premises sold in buildings completed in current period, thousand square meters	412	355	404
Premises sold in buildings completed in prior periods, thousand square meters	100	79	88
	512	**434**	**492**
Parking spaces sold in buildings completed in current period	681	442	-

The Group has recognised revenue of RUB 30,855 million (2010: RUB 20,626 million; 2009: RUB 23,364 million) for the sale of apartments to individuals. Customers have the legal right to cancel the transaction up to the date of entering into final purchase agreements. Based on past experience, the percentage of transactions being reversed at the request of customers from the date when the sale is recognised is significantly lower than 1%. The Group has, therefore, recognised revenue in full amount without recognising any provision for returns. Had the actual returns been at a level of 1%, revenue for the year ended 31 December 2011 would have decreased by approximately RUB 309 million (2010: RUB 206 million; 2009: RUB 234 million).

In 2009-2011 the Group initiated a series of transactions with the Group's suppliers aimed at settling the balances of trade payables with apartments. During 2011 the revenues from sale of apartments in exchange for goods and services received amounted to RUB 4,390 million (2010: RUB 6,497 million; 2009: RUB 7,376 million).

(b) Revenue from construction services

	mln RUB	mln RUB
Cost incured to date	10,493	10,090
Profits recognized to date	1,696	1,817
Amounts due from customers	688	625

During 2011 construction services in the amount of RUB 9,099 million (2010: RUB 7,230 million 2009: RUB 3,884 million) were provided to developers of buildings where the Group participates as a co-investor.

9 Cost of sales

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Cost of construction services	27,420	22,585	24,318
Effect of revision of social infrastructure costs	1,025	4,181	-
Salaries and wages	2,553	2,392	2,318
Materials	1,331	1,014	985
Overhead expenses	3,773	4,543	4,526
Depreciation	486	483	441
	36,588	**35,198**	**32,588**

During 2011 and 2010 the Group revised certain master construction plans and related construction budgets for social infrastructure and utilities for several big housing projects located in Moscow and the Moscow region.

The revisions of the master plans resulted in changes to the net sellable area and the respective change in the cost of infrastructure per square meter of sellable area. The total effect of the revision included in cost of sales consists of:

	2011 mln RUB	2010 mln RUB
Effect of change in net sellable area and related cost of infrastructure	1,528	1,430
Change in design of social infrastructure and facilities	(503)	2,751
	1,025	**4,181**

10 Personnel costs

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Salaries and wages	4,472	4,094	4,466
Social charges	881	616	664
	5,353	**4,710**	**5,130**

11 Gains and losses on disposal of subsidiaries and development rights

(a) Disposal of subsidiaries and development rights in 2011

In January 2011 the Group sold its share in the following legal entities representing the Group's share in Park-City Project: PIK Invest, Porgots ltd, ZAO KRPT. The land plot is located in the centre of Moscow.

In July 2011 the Group sold its 100% interest in ZAO Ochakovsky ZhBk, which held the rights for a land plot intended for residential development in the south of Moscow.

In December 2011 the Group sold its 100% interest in entity which owned a piece of land plot located in Korolyov, Moscow Region.

In million RUB	ZAO Ochakovsky ZhBK	Park-City Project	Land plot in Korolyov	Total
Development rights	-	-	(219)	(219)
Investments in equity accounted investees	-	(1,752)	-	(1,752)
Inventories	(4,800)	(1,269)	-	(6,069)
Current liabilities	3,627	1,249	-	4,876
Net identifiable assets	**(1,173)**	**(1 772)**	**(219)**	**(3,164)**
Consideration received/receivable	2,987	1,720	755	5,462
Net gain/(loss) on disposal	**1,814**	**(52)**	**536**	**2,298**

The increase in inventories of ZAO Ochakovsky ZhBK from RUB 1,747 million at 31 December 2010 included in assets held for sale (note 6) to RUB 4,800 million represents acquisition of the remaining part of the land plot by the Group in 2011 prior to sale and construction costs incurred during the period.

(b) Disposal of subsidiaries and development rights in 2010

On 12 April 2010 the Group sold Sturm Properties limited and its subsidiaries operating in the commercial real estate development segment for a negligible consideration. Since the subsidiaries had negative net assets at the date of disposal, the transaction resulted in a net gain of RUB 368 million.

(c) Disposal of subsidiaries and development rights in 2009

In February 2009 the Group sold its 100% interest in OOO Rostovkapstroy. The subsidiary acted as a developer of residential premises in Rostov-on-Don.

In December 2009 the Group sold its 89% interest in Moreliabay Investments Ltd to offset outstanding project financing facility. Moreliabay Investments Ltd controlled a land plot intended for non-residential development in the Moscow region (North West Towers Project).

In December 2009 the Group sold its 100% interest in OOO Lasteya Art (Afanasevsky street project), which held the rights for a land plot intended for the development of a high-end residential living complex, to a related party.

In October 2009 the Group sold its land plot in Saint Petersburg (Marine Façade project) which was accounted for as development right.

In July 2009 the Group sold its 100% interest in Avtorita Holdings Ltd., which owned the corporate aircraft, to a related party.

The disposals had the following effect on the financial statements:

In million RUB	**OOO Rostov-kapstroy**	**Moreliabay Investments Ltd.**	**OOO Lasteya Art**	**Land plot in Saint Petersburg**	**Avtorita Holdings Ltd.**	**Others**	**Total**
Development rights	-	(2,752)	-	(2,055)	-	(21)	(4,828)
Property, plant and equipment	-	-	-	-	(629)	(95)	(724)
Inventories	(926)	-	(404)	-	-	-	(1,330)
Trade and other receivables	-	(117)	-	-	(178)	-	(295)
Trade accounts payable	857	-	-	-	-	1	858
Loans payable	-	1,752	-	-	591	-	2,343
Net identifiable assets	**(69)**	**(1,117)**	**(404)**	**(2,055)**	**(216)**	**(115)**	**(3,976)**
Consideration received/receivable	151	0.04	274	2,164	0.04	115	2,704
Net gain/(loss) on disposal	**82**	**(1,117)**	**(130)**	**109**	**(216)**	**-**	**(1,272)**

In addition, in August 2009 the Group sold its 100% interest in OOO PIK-Nerud and all of its subsidiaries which comprised non-metal mining operations of the Group – refer note 6.

12 Distribution expenses

	2011 mln RUB	**2010 mln RUB**	**2009 mln RUB**
Salaries and wages	253	215	185
Advertising expenses	294	154	152
Other	77	119	140
	624	**488**	**477**

13 Administrative expenses

	2011 mln RUB	**2010 mln RUB**	**2009 mln RUB**
Salaries and wages	2,547	2,103	2,627
Professional and other services	660	351	436
Depreciation	248	273	316
Other administrative expenses	750	645	511
	4,205	**3,372**	**3,890**

14 Finance income and costs

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Finance income			
Interest income	151	325	400
Reversal of bank penalties	1,189	-	-
Foreign exchange gains	179	-	-
Other finance income	81	-	371
	1,600	**325**	**771**

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Finance costs			
Interest expense	(5,871)	(4,410)	(5,236)
Penalties and fines for late repayment of loan	-	(1,189)	(2,398)
Foreign exchange losses	-	(96)	(642)
Impairment of financial assets	(564)	(595)	(2,147)
Change in non-controlling interest in limited liability companies	(123)	-	-
	(6,558)	**(6,290)**	**(10,423)**

15 Other income and expenses

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Penalties and fines, including reversals	473	(2,191)	-
Reversal of VAT accrued in previous periods	448	-	-
Effect of termination long-term land lease and share purchase agreements	585	2,032	(238)
Other income and expenses	115	(214)	(153)
	1,621	**(373)**	**(391)**

In 2011 the Group rearranged its wholesale agreement with one of its major customer, which resulted in reversal of VAT provision.

16 Income tax (expense)/benefit

The income tax (expense)/benefit consist of the following:

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Current tax expense			
Current year	(550)	(1,041)	(1,460)
Adjustment to prior year taxable income recognised in current period	88	1,339	-
Tax provision reversed/(recognised), net (note 27)	(1,554)	(1,175)	318
	(2,016)	(877)	(1,142)
Deferred tax credit			
Origination and reversal of temporary differences	409	2,928	274
	409	2,928	274
	(1,607)	**2,051**	**(868)**

During 2010 the Group decided to apply for a deduction from the prior year's taxable income with respect to expenses previously considered non-deductible. For risks associated with the adjustment to prior year taxable income recognized in current period refer to note 27.

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2010: 20%, 2009: 20%). The subsidiaries domiciled in Cyprus were taxed at a rate of 10%.

Reconciliation of effective tax rate:

	2011 mln RUB	%	2010 mln RUB	%	2009 mln RUB	%
Profit/(loss) before income tax, continuing operations	6,412	100	(8,096)	100	(11,807)	100
Income tax benefit at applicable tax rate	(1,282)	(20)	1,619	20	2,361	(20)
Effect of unrecognised deferred tax assets	(220)	(3)	34	-	(1,616)	14
Adjustment to prior year taxable income recognized in current period	88	1	1,339	17	-	-
Non-taxable income/(non-deductible expenses)	1,477	23	361	5	(1,956)	17
Tax provisions, net of reversals	(1,554)	(24)	(1,175)	(15)	318	(3)
Effect of income taxed at lower rates	(116)	(2)	(127)	(2)	25	-
	(1,607)	**25**	**2,051**	**25**	**(868)**	**8**

17 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2009	8,855	4,096	2,326	2,001	17,278
Additions	-	-	-	570	570
Disposals	(69)	(322)	(194)	(29)	(614)
Disposal of subsidiaries (notes 6, 11)	(334)	(672)	(854)	(19)	(1,879)
Transfers	2,100	26	46	(2,172)	-
At 31 December 2009	10,552	3,128	1,324	351	15,355
Additions	-	-	-	506	506
Disposals	(154)	(154)	(417)	(37)	(762)
Transfers	138	95	205	(438)	-
At 31 December 2010	**10,536**	**3,069**	**1,112**	**382**	**15,099**
Additions	-	-	-	792	792
Disposals	(93)	(50)	(223)	(15)	(381)
Transfers	336	268	87	(691)	-
At 31 December 2011	**10,779**	**3,287**	**976**	**468**	**15,510**
Accumulated depreciation and impairment losses					
At 1 January 2009	(2,199)	(1,625)	(614)	-	(4,438)
Impairment losses (note 20)	(423)	(52)	(24)	-	(499)
Depreciation charge	(291)	(335)	(192)	-	(818)
Disposals	5	263	93	-	361
Disposal of subsidiaries (notes 6, 11)	74	255	100	-	429
At 1 January 2010	(2,834)	(1,494)	(637)	-	(4,965)
Impairment losses	(305)	(209)	(11)	(22)	(547)
Reversal of impairment losses	268	22	3	-	293
Depreciation charge	(362)	(269)	(126)	-	(757)
Disposals	69	120	140	-	329
At 31 December 2010	**(3,164)**	**(1,830)**	**(631)**	**(22)**	**(5,647)**
Impairment losses (see note 20)	(726)	-	-	-	(726)
Reversal of impairment losses	394	105	5	-	504
Depreciation charge	(367)	(272)	(97)	-	(736)
Disposals	18	25	75	-	118
At 31 December 2011	**(3,845)**	**(1,972)**	**(648)**	**(22)**	**(6,487)**
Net book value					
At 1 January 2009	**6,656**	**2,471**	**1,712**	**2,001**	**12,840**
At 31 December 2009	**7,718**	**1,634**	**687**	**351**	**10,390**
At 31 December 2010	**7,372**	**1,239**	**481**	**360**	**9,452**
At 31 December 2011	**6,934**	**1,315**	**328**	**446**	**9,023**

(a) Security

At 31 December 2011 property, plant and equipment with a carrying value of RUB 2,847 million (2010: RUB 3,614 million; 2009: RUB 3,486 million) was pledged to secure bank loans (refer note 25).

(b) Depreciation expense

Depreciation expense of RUB 486 million has been charged to cost of goods sold, RUB 2 million to distribution expenses, RUB 248 million to administrative expense (2010: RUB 483 million, RUB 1 million, RUB 273 million, accordingly; 2009: RUB 441 million, RUB 5 million, RUB 316 million and RUB 56 million to expenses classified as discontinued operations, accordingly).

18 Intangible assets

mln RUB	Development rights	Other intangible assets	Total
Cost			
At 1 January 2009	**42,490**	**640**	**43,130**
Additions	2,007	1	2,008
Disposals and adjustments	(5,325)	-	(5,325)
Reclassification into construction work-in-progress	(144)	-	(144)
At 31 December 2009	**39,028**	**641**	**39,669**
Additions	743	-	743
Disposals	(1,321)	(493)	(1,814)
At 31 December 2010	**38,450**	**148**	**38,598**
Additions	1,178	64	1,242
Disposals	(819)	(8)	(827)
Reclassification into construction work-in-progress	(488)	-	(488)
At 31 December 2011	**38,321**	**204**	**38,525**
Accumulated amortisation and impairment losses			
At 1 January 2009	**(15,247)**	**(428)**	**(15,675)**
Amortisation charge	-	(42)	(42)
Impairment losses (note 20)	(3,040)	-	(3,040)
Reversal of impairment (note 20)	845	-	845
Impairment provision related to disposed assets	315	-	315
At 31 December 2009	**(17,127)**	**(470)**	**(17,597)**
Impairment losses	(2,756)	-	(2,756)
Revesal of impairment	3,598	-	3,598
Impairment provision related to disposed assets	573	318	891
Amortisation charge	-	(2)	(2)
Amortisation charge accumulated on disposals	-	112	112
At 31 December 2010	**(15,712)**	**(42)**	**(15,754)**
Impairment losses (see note 20)	(666)	-	(666)
Revesal of impairment	4,154	-	4,154
Amortisation charge	-	(1)	(1)
Derecognition during reporting period	585	-	585
At 31 December 2011	**(11,639)**	**(43)**	**(11,682)**
Net book value			
At 1 January 2009	**27,243**	**212**	**27,455**
At 31 December 2009	**21,901**	**171**	**22,072**
At 31 December 2010	**22,738**	**106**	**22,844**
At 31 December 2011	**26,682**	**161**	**26,843**
			-

(a) Development rights

As at 31 December 2011, 2010 and 2009 the Group's portfolio of development rights comprised of the following items:

Subsidiary	Location of land plot	2011 mln RUB	2010 mln RUB	2009 mln RUB
OAO Krasnopresnensky Sakharorafinadny Zavod	Moscow, Center (KSRZ)	8,360	8,339	8,071
OOO Status Land	Moscow region, South-West, Kommunarka	9,041	9,035	8,985
OAO Kuskovskiy Khimicheskiy Zavod	Moscow, South-East (KHZ)	5,273	5,167	5,154
OOO RusBusinessInvest/OOO Maks Ltd	Yaroslavl (Frunzenskiy and Dzerzhinskiy districts)	2,400	2,387	3,093
OOO Waystone	Moscow, South, Kashirskoye	2,479	2,475	2,491
OOO Izh Stroi	Republic of Udmurtia, Izhevsk	1,272	1,852	1,836
ZAO Zavod Gazstroymash	Moscow, South, Varshavkoye	1,636	1,615	1,146
OOO PIK Perm	Perm, Bakharevka	1,147	1,125	1,118
ZAO Zavod Krasniy Vostok	Moscow, South-east, Shelkovskoye	1,061	1,049	1,030
OOO Priz/OOO Rash	Kaliningrad region, Svetlogorsk	1,244	996	996
OOO Mayak	Moscow, South-west, Kievskoe	832	832	832
OOO Semigor	Krasnodar region, Novorossisk	883	883	883
OOO Alanteya	Moscow, South, Michurinskiy	701	701	665
OOO Park-Presnya	Moscow, Izmaylovsky Proezd	664	-	-
OOO Pulkovo-Estate	St. Petersburg, Pulkovo - 3	521	550	438
OOO Speccvetmetinvest	Moscow, 17th proezd of Maryina Rosha	284	284	282
OOO Rostovskoye More	Rostov region	186	186	186
ZAO PIK-Region	Moscow region, Zheleznodorojniy	144	-	-
Others entities		193	974	1,822
		38,321	**38,450**	**39,028**
Less provision for impairment		(11,639)	(15,712)	(17,127)
		26,682	**22,738**	**21,901**

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 2011, 2010 and 2009. 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 2009-2011 through acquisition of legal entities were as follows:

Subsidiary	Location of land plot	Date	Shareholding acquired	Net sellable area, million square meters	Primary type of development	Consideration paid, mln RUB
Acquisitions in 2009						
OOO Mayak	Moscow, South-west, Kievskoe shosse	Mar-2009	100%	0.2	Commercial	832
Acquisitions in 2011						
OOO Park-Presnya	Moscow, Izmaylovsky Proezd	April-2011	99%	0.05	Residential	664
ZAO PIK-Region	Moscow region, Zheleznodorojniy	July-2011	100%	0.23	Residential	144
						808

19 Investments in equity accounted investees

The balance of investments in equity accounted investees as at 1 January 2009 and 31 December of RUB 3,522 million and RUB 3,460 million, respectively, and the Assets held for sale at 31 December 2010 of RUB 2,969 million comprise of the Group's share in Project Park-City held as a 33% share in ZAO Park-City Investments and 25% share in OOO KRPT. The Group sold the investment in 2011 for a consideration of RUB 1,720 million, refer note 6.

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

At each reporting date the recoverable amount was determined for the following assets:

- property, plant and equipment;
- other intangible assets acquired as part of business combination;
- development rights;
- investments in equity accounted investees;
- inventories.

The accumulated impairment losses relate to the following assets:

		31 December 2011			**31 December 2010**			**31 December 2009**		
		Carrying value	Impair-ment / write down	Balance after impair-ment	Carrying value	Impair-ment / write down	Balance after impair-ment	Carrying value	Impair-ment / write down	Balance after impair-ment
	Note	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**
Property, plant and equipment	17	11,826	(2,803)	9,023	12,033	(2,581)	9,452	12,682	(2,292)	10,390
Promotion and development fees		-	-	-	-	-	-	317	(317)	-
Development rights	18	38,321	(11,639)	26,682	38,450	(15,712)	22,738	39,028	(17,127)	21,901
Inventory	22	78,092	(2,066)	76,026	66,732	(1,677)	65,055	66,114	(5,354)	60,760
		128,239	**(16,508)**	**111,731**	**117,215**	**(19,970)**	**97,245**	**118,141**	**(25,090)**	**93,051**

In most instances the Group used discounted cash-flows to determine the recoverable amounts. The Group has also engaged an independent appraiser to estimate the fair values of the Group's investments in the development rights. In the instances where the value in use of the development rights determined using the cash flow projections significantly exceeded the fair value as determined by the independent appraiser, the previously recognised impairment losses were only reversed to the extent of the fair value amounts.

Additional impairment losses/write-downs and reversals of impairment were recognized in 2011 with respect to the following items due to changes in the market data related to the Group's construction projects/development rights:

	Note	**2011 mln RUB**	**2010 mln RUB**	**2009 mln RUB**
Impairment losses and write downs				
Property, plant and equipment	17	(726)	(547)	(499)
Development rights impairment	18	(666)	(2,756)	(3,040)
Inventory write down	22	(1,289)	(577)	(1,977)
Assets held for sale	6	-	(2,724)	-
		(2,681)	**(6,604)**	**(5,516)**
Reversal of impairment				
Reversals				
Property, plant and equipment	17	504	192	-
Development rights	18	4,154	3,598	845
Inventory	22	900	1,708	-
		5,558	**5,498**	**845**
		2,877	**(1,106)**	**(4,671)**

In addition, in 2011, 2010 and 2009, impairment losses have been reversed in the following amounts due to disposals of the respective assets. The related gains were included in other income.

	Note	2011 mln RUB	2010 mln RUB	2009 mln RUB
Derecognitions related to disposals				
Property, plant and equipment reverse due to the disposal		-	101	-
Promote and development fees		-	318	-
Development rights	18	585	573	315
Inventory	22	-	2,371	-
		585	**3,363**	**315**

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

mln RUB	Assets 2011	Assets 2010	Assets 2009	Liabilities 2011	Liabilities 2010	Liabilities 2009	Net 2011	Net 2010	Net 2009
Property, plant and equipment	39	58	8	(358)	(319)	(359)	(319)	(261)	(351)
Investments	-	3	17	(20)	-	-	(20)	3	17
Intangible assets	-	-	7	(82)	(65)	(60)	(82)	(65)	(53)
Inventories	883	1,030	2,393	(830)	(238)	(69)	53	792	2,324
Trade and other receivables	300	412	341	(18)	-	(2)	282	412	339
Trade and other payables	1,080	660	218	(1,914)	(2,827)	(6,738)	(834)	(2,167)	(6,520)
Tax loss carry-forwards	130	87	95	-	-	-	130	87	95
Tax assets/(liabilities)	2,432	2,250	3,079	(3,222)	(3,449)	(7,228)	(790)	(1,199)	(4,149)
Set off of tax	(1,535)	(1,916)	(2,993)	1,535	1,916	2,993	-	-	-
Net tax assets/(liabilities)	897	334	86	(1,687)	(1,533)	(4,235)	(790)	(1,199)	(4,149)

(b) Unrecognised deferred tax assets

Deferred tax assets of RUB 8,899 million (31 December 2010: RUB 7,131 million; 31 December 2009: RUB 7,157 million) have not been recognised in respect of the deductible temporary differences and tax losses carried forward. The assets have not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Tax losses expire in 2018.

(c) Unrecognised deferred tax assets and liabilities related to investments in subsidiaries

As at 31 December 2011 there were no unrecognised deferred tax liabilities related to investments in subsidiaries since the tax value of the investments in subsidiaries exceeded the net assets of the respective subsidiaries. The unrecognized deferred tax asset amounted to RUB 12,542 million.

(d) Movement in temporary differences during the year

mln RUB	1 January 2011	Recognised in profit and loss	Changes due to disposal of subsidiaries	31 December 2011
Property, plant and equipment	(261)	(58)	-	(319)
Investments	3	(23)	-	(20)
Intangible assets	(65)	(17)	-	(82)
Inventories	792	(739)	-	53
Trade and other receivables	412	(130)	-	282
Trade and other payables	(2,167)	1,333	-	(834)
Tax loss carry-forwards	87	43	-	130
	(1,199)	**409**	**-**	**(790)**

mln RUB	1 January 2010	Recognised in profit and loss	Changes due to disposal of subsidiaries	31 December 2010
Property, plant and equipment	(351)	90	-	(261)
Investments	17	(14)	-	3
Intangible assets	(53)	(34)	22	(65)
Inventories	2,324	(1,532)	-	792
Trade and other receivables	339	73	-	412
Trade and other payables	(6,520)	4,353	-	(2,167)
Tax loss carry-forwards	95	(8)	-	87
	(4,149)	**2,928**	**22**	**(1,199)**

mln RUB	1 January 2009	Recognised in profit and loss	Changes due to disposal of subsidiaries	31 December 2009
Property, plant and equipment	(635)	267	17	(351)
Investments	(60)	77	-	17
Intangible assets	(61)	8	-	(53)
Inventories	1,922	402	-	2,324
Trade and other receivables	130	209	-	339
Loans and borrowings	16	(16)	-	-
Trade and other payables	(6,432)	(88)	-	(6,520)
Tax loss carry-forwards	680	(585)	-	95
	(4,440)	**274**	**17**	**(4,149)**

22 Inventories

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Construction work in progress, intended for sale	68,086	57,789	55,074
Raw materials and consumables	1,367	1,443	1,118
Work in progress	147	314	757
Finished goods and goods for resale	6,426	5,509	3,811
	76,026	**65,055**	**60,760**
Write down	(2,066)	(1,677)	(5,354)

As at 31 December 2009 the Group revised its portfolio of construction projects and decided to temporarily suspend construction of certain properties for one year and longer. Although such periods are considered to be beyond the normal operating cycle, because fluctuations in the operating cycle are common in the real estate sector as the economics change, such projects continue to be classified as current because the business model for the Group has not changed.

The balance of such suspended projects included in inventory at 31 December 2011 amounts to RUB 3,588 million.

23 Trade and other receivables

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Trade accounts receivable	6,602	7,785	6,996
Advances paid	2,440	1,679	1,688
Taxes receivable	975	1,161	1,385
Accounts receivable for devopment rights	649	-	-
Others	1,065	1,252	529
	11,731	**11,877**	**10,598**
Impairment losses	(1,980)	(1,403)	(1,430)

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

24 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares 2011**	**Ordinary shares 2010**	**Ordinary shares 2009**
Authorised shares	979,575,384	979,575,384	856,260,384
Par value	RUB 62.5	RUB 62.5	RUB 62.5
On issue at beginning of year	493,260,384	493,260,384	489,970,384
On issue at end of year, fully paid	493,260,384	493,260,384	493,260,384

The share capital of RUB 10 million was formed prior to 31 December 2002, when the Russian economy was considered to be hyperinflationary for IFRS purposes. Therefore the balance of the share capital was adjusted for the effect of hyperinflation amounting to RUB 13 million. As a result, the carrying value of the share capital as at 31 December 2004 amounted to RUB 23 million.

In October 2010 the additional share issue of 123,315,000 shares was registered with the Federal Service on Financial Markets (FSFM) of Russian Federation. The shares have not been issued and paid up.

(b) Dividends

In accordance with the Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. The Company did not have distributable reserves as at 31 December 2011.

(c) 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	2011	2010	2009
Issued shares at 1 January	493,260	493,260	489,970
Effect of shares sold in September 2009	-	-	823
Weighted average number of shares for the year ended 31 December	**493,260**	**493,260**	**490,793**

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.

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Non-current			
Secured bank loans	27 457	3 318	4 304
Unsecured bank loans	74	-	1 900
Unsecured loans from third parties	18	1 598	73
	27 549	**4 916**	**6 277**
Current			
Secured bank loans	17 983	35 684	26 735
Unsecured bank loans	-	-	3 024
Unsecured loans from related parties	-	323	-
Unsecured loans from third parties	215	643	997
Current portion of finance lease liability	-	-	2
Interest payble	1 324	1 132	561
Penalties payble	-	1 280	694
	19 522	**39 062**	**32 013**
	47 071	**43 978**	**38 290**

As at 31 December 2011, 2010 and 2009 the bank loans were secured with:

- property, plant and equipment with a carrying value of RUB 2,847 million (2010: RUB 3,614 million; 2009: RUB 3,486 million);
- inventory with a carrying value of RUB 5 million (2010: RUB 5 million; 2009: RUB 1,842 million);
- development rights with a carrying value of RUB 11,756 million (2010: RUB 972 million; 2009: RUB 897 million);

- investment rights for residential and commercial real estate with a total saleable area of 107 thousand square meters in Moscow and the Moscow Region with carrying value of RUB 5,493 million and nil square meters in other regions (31 December 2010: 215 thousand square meters with a carrying value of RUB 10,967 million and nil, respectively; 31 December 2009: 1,393 thousand square meters with a carrying value of RUB 69,650 million and 17 thousand square meters with a carrying value of RUB 680 million, respectively);
- guarantees of Holborner Services Ltd, a company controlled by Nafta Moskva Group, and by a pledge of 51,579,362 Ordinary Shares and 45,463,814 GDRs owned by Holborner Services Ltd (2010 and 2009 51,579,362 Ordinary Shares and 45,463,814 GDRs);
- shares of the following subsidiaries which comprise a substantial part of the Group:

	2011		**2010**		**2009**	
	Number of shares	% of share capital	Number of shares	% of share capital	Number of shares	% of share capital
OAO DSK-2	51,950,334	98	51,950,334	98	51,950,334	98
OAO DSK-3	1,747,081	81	1,747,081	81	1,747,081	81
OAO 480 KGI	1,556,430	100	1,556,430	100	1,556,430	100
OAO KHZ	1,454,600	92	1,454,600	92	1,454,600	92
OAO 160 DSK	1,219,628	75	1,219,628	75	813,087	50
OAO Zavod Gazstroymash	387,421	86,61	-	-	-	-
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	334,000	100	334,000	100	170,000	100
ZAO TP Red East	37,317	93	37,317	93	37,317	93
OAO 100 KGI	10,016	77	10,016	77	10,016	77
ZAO Stroybusinesscenter	10,000	100	10,000	100	10,000	100
ZAO Podmoskovye 160 DSK	5,811	63	5,811	63	5,811	63
ZAO Monetchik	100	100	100	100	100	100
ZAO PIK Zapad	110	100	110	100	110	100
OOO NSS	-	100	-	100	-	100
OOO StroyInvest	-	100	-	100	-	100
OOO Semigor	-		-	100	-	100
OOO Status Land	-	100	-	100	-	100
OOO Kholdingovaya Kompanya Upravlenie Experimentalnoy Zastroyki Novokurkino	-	-	-	100	-	100
OOO Waystone	-	100	-	-	-	-

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

31 December 2011

mln RUB	Total	Overdue	Under 1 year	1 - 5 years
Secured bank loans				
RUB - fixed at 12-14%	37,390	-	16,114	21,276
RUB - fixed at 14-16%	4,000	-	600	3,400
USD - fixed at 10%-11%	3,272	-	491	2,781
USD - fixed at 10%, payable on demand	778	-	778	-
Unsecured bank loans				
RUB - fixed at 14%	74	-	-	74
Unsecured loans from third parties				
RUB - fixed at 0%	2	2	-	-
RUB - fixed at 0.1% - 10%	159	18	123	18
RUB - fixed at 10.1% - 18%	15	-	15	-
USD - fixed at 3% - 12%	57	-	57	-
Interest payable	1,324	-	1,324	-
	47,071	**20**	**19,502**	**27,549**

31 December 2010

mln RUB	Total	Overdue	Under 1 year	1 - 5 years
Secured bank loans				
RUB - fixed at 12-14%	4,956	-	1,900	3,056
RUB - fixed at 12-16%, payable on demand	22,903	-	22,903	-
USD - fixed at 10%-15%	6,726	6,086	378	262
USD - fixed at 10%, payable on demand	4,417	-	4,417	-
Unsecured loans from third parties				
RUB - fixed at 0%	57	57	-	-
RUB - fixed at 0.1% - 10%	97	38	41	18
RUB - fixed at 10.1% - 18%	2,021	10	431	1,580
USD - fixed at 3% - 12%	66	8	58	-
Unsecured loans from related parties				
RUB -fixed at 12%	323	-	323	-
Interest payable	1,132	-	1,132	-
Penalties payable	1,280	-	1,280	-
	43,978	**6,199**	**32,863**	**4,916**

31 December 2009

mln RUB	Total	Overdue	Under 1 year	1 - 5 years
Secured bank loans				
RUB - fixed at above 10%	4,454	1,304	-	3,150
RUB - fixed at 12%, payable on demand	15,844	-	15,844	-
USD - fixed at 6% and below	10,741	9,587	-	1,154
Unsecured bank loans				
RUB - fixed at 14%	1,900	-	-	1,900
USD - fixed at 10.8% - 18%	3,024	3,024	-	-
Unsecured loans from third parties				
RUB - fixed at 0%	51	-	51	-
RUB - fixed at 0.1% - 10%	744	-	671	73
RUB - fixed at 10.1% - 16%	275	-	275	-
Interest payable	561	-	561	-
Penalties payable	694	-	694	-
Finance lease liabilities (RUB)	2	-	2	-
	38,290	**13,915**	**18,098**	**6,277**

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, and cross-default provisions. Covenant breaches generally permit lenders to demand accelerated repayment of the principal and interest. As at 31 December 2011, 2010 and 2009 the Group breached the following financial covenants in various loan agreements in amount of RUB 778 million (2010: RUB 27,317 million; 2009: RUB 15,844 million): interest expense to EBITDA, debt to EBITDA. These loans are classified as current, payable on demand, as at 31 December 2011, 2010 and 2009.

26 Trade and other payables

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Non-current			
Accounts payable for construction works and other trade payables	-	-	1,117
Other liabilities	142	20	11
	142	**20**	**1,128**
Current			
Advances from customers	38,914	30,274	26,773
Accounts payable for construction works and other trade payables	10,541	13,127	14,311
Accounts payable for acquisition of development rights	252	1,683	2,487
Advances received for sale of development rights	-	1,492	-
Other taxes payable	2,769	3,794	6,519
Other payables	2,348	3,406	1,650
	54,824	**53,776**	**51,740**

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

27 Provisions

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Provision for cost to complete	21,189	19,870	13,774
Tax provision	3,372	1,738	609
	24,561	**21,608**	**14,383**

Estimated costs to complete represent the Group's estimate of future costs which are expected to be incurred in relation to construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate etc., which the Group is obliged to build as part of its arrangements with municipal authorities.

These estimates are particularly dependant on the changes in city development regulations, which may trigger the changes in the investment contacts with the Group, change in prices for construction materials and labor, and the ability of the Group to further sell such assets at expected prices.

The tax provisions relating to deductibility for tax purposes of certain expenses primarily comprise of a provision of income tax of RUB 3,246 million and other taxes of RUB 126 million (31 December 2010: RUB 1,691 million and RUB 47 million, accordingly; 31 December 2009: RUB 537 million and RUB 72 million, accordingly). The provision includes penalties and has not been subject to discounting.

mln RUB	Provision for costs to complete	Provision for tax	Total
As at 1 January 2011	**19,870**	**1,738**	**21,608**
Additional provisions	13,414	1,796	15,210
Releases of provisions	-	(162)	(162)
Amount used	(12,095)	-	(12,095)
As at 31 December 2011	**21,189**	**3,372**	**24,561**
As at 1 January 2010	**13,774**	**609**	**14,383**
Additional provisions	11,349	1,279	12,628
Releases of provisions	-	(150)	(150)
Amount used	(5,253)	-	(5,253)
As at 31 December 2010	**19,870**	**1,738**	**21,608**

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.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(iv) 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.

(v) 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.

(vi) 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:

Credit risk	**2011** mln RUB	**2010** mln RUB	**2009** mln RUB
Loans and receivables	8,192	10,049	9,896
Cash and cash equivalents	2,874	4,350	3,417
	11,066	14,399	13,313

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

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

	2011 mln RUB	2010 mln RUB	2009 mln RUB
State agencies	-	-	183
Receivable from services provided	4,592	3,785	3,108
Entities with significat state share in equity	2,010	4,000	3,705
	6,602	**7,785**	**6,996**

Impairment losses

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

Impairment losses	Gross 2011 mln RUB	Impairment 2011 mln RUB	Gross 2010 mln RUB	Impairment 2010 mln RUB	Gross 2009 mln RUB	Impairment 2009 mln RUB
Not past due	5,003	(263)	7,249	(262)	6,859	(478)
Past due 31-120 days	144	(144)	146	(146)	1,078	(206)
More than one year	1,980	(1,980)	1,403	(1,403)	1,430	(1,430)
	7,127	**(2,387)**	**8,798**	**(1,811)**	**9,367**	**(2,114)**

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

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Balance at beginning of the year	1,811	2,114	2,815
Increase during the year	564	595	2,147
Amounts written off against financial assets	12	(898)	(2,848)
Balance at end of the year	**2,387**	**1,811**	**2,114**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. However, certain provisions were made in respect of loans issued although their contracted maturities have not been breached.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Group treasury carries out liquidity risk management including risks which the Group would face in the long-, medium- and short-term periods under governance approved and provided by the Board that reviewed regularly in order to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group in order to control cash balance available at any time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. As stated in note 25 the Group has breached covenants in many of its loan agreements as at 31 December 2010 and 31 December 2009. Therefore, the lenders have the right to claim for the repayments before the contracted maturities. Where covenants are in breach as at 31 December 2011, 31 December 2010 and 31 December 2009, the loans are presented as payable within 6 months after the reporting period end in the table below.

Liquidity risk

2011	**Average interest rate**							
mln RUB	**Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Bank loans	10-16%	10-16%	9,039	8,944	12,495	14,480	556	45,514
Trade and other payables	-	-	13,141	-	-	-	-	13,141
Interest payable	-	-	3,440	2,249	2,864	1,007	19	9,579
Unsecured loans from third parties	0-18%	0-16%	19	196	18	-	-	233
			25,639	**11,389**	**15,377**	**15,487**	**575**	**68,467**

2010	**Average interest rate**							
mln RUB	**Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Secured bank loans	10,3-16%	10,3-16%	35,582	102	3,318	-	-	39,002
Trade and other payables	-	-	19,688	-	20	-	-	19,708
Interest payable	-	-	1,439	208	944	-	-	2,591
Unsecured loans from related parties	12%	12%	323	-	-	-	-	323
Unsecured loans from third parties	0-18%	0-16%	189	454	291	1,307	-	2,241
Penalties payable	-	-	1,280	-	-	-	-	1,280
Guarantie provided	-	-	2,286	-	-	-	-	2,286
			60,787	**764**	**4,573**	**1,307**	**-**	**67,431**

2009	**Average interest rate**							
mln RUB	**Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Secured bank loans	6-12%	10-18%	18,856	7,879	1,157	-	3,147	31,039
Finance lease liabilities	-	16-25%	-	2	-	-	-	2
Unsecured bank loans	10,8-18%	10-18%	3,024	-	1,900	-	-	4,924
Trade and other payables	-	-	17,320	-	1,128	-	-	18,448
Interest payable	-	-	1,072	511	1,006	714	302	3,605
Unsecured loans from third parties	0-16%	0-16%	997	-	73	-	-	1,070
Penalties payable	-	-	694	-	-	-	-	694
Guarantie provided	-	-	2,268	-	-	-	-	2,268
			44,231	**8,392**	**5,264**	**714**	**3,449**	**62,050**

(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.

(iv) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian Rouble (RUB). The currency in which these transactions primarily are denominated in U.S. Dollars (USD).

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUB, but also USD. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

mln RUB	USD-denominated 2011	USD-denominated 2010	USD-denominated 2009
Cash	542	3	26
Short-term investments	116	-	-
Receivables	82	79	75
Trade payables	(2)	(1,308)	36
Other payables	(139)	(139)	(408)
Promissory notes	(672)	(106)	(6)
Loans and borrowings	(4,107)	(11,209)	(13,765)
	(4,180)	**(12,680)**	**(14,042)**

The RUB/USD exchange rates at 31 December 2011, 31 December 2010 and 31 December 2009 were 32.20, 30.48 and 30.24 respectively. The average RUB/USD rates for the years were 29.39, 31.73 and 24.84, respectively.

Sensitivity analysis

A 20% strengthening of the RUB against the USD at 31 December 2011, 31 December 2010 and 31 December 2009 would have increased equity and profit by RUB 836 million, RUB 2,568 million and RUB 2,834 million respectively. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2009.

A 20% weakening of the RUB against the above currencies at 31 December 2011, 31 December 2010 and 31 December 2009 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(v) 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 ammount		
	2011	**2010**	**2009**
Fixed rate instruments	**mln RUB**	**mln RUB**	**mln RUB**
Financial assets	525	1,012	2,371
Financial liabilities	(47,071)	(43,978)	(38,290)
	(46,546)	**(42,966)**	**(35,919)**

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 2011, 31 December 2010 and 31 December 2009, the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4.

The fair values of financial assets and liabilities do not differ significant from their carrying amounts:

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board of Directors monitors the level of dividends to ordinary shareholders, makes decisions regarding selling assets to reduce the debt.

The Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 34.

During 2009, 2010 and 2011 the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

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

29 Commitments

Commitments under co-investment and construction services contracts

During 2009-2011 the Group entered into a number of co-investment contracts and estimated the total cash outflow for each individual project. Under these projects payments have not been made in full by individuals. Therefore, the Group has contractual obligations to complete the buildings within normal operating cycle of development. As at 31 December 2011 commitments under these contracts totalled approximately RUB 48,225 million (2010: RUB 60,118 million; 2009: RUB 56,576 million). These payments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

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 service contracts. The amount of RUB 776 million related to accounts payable claimed at court at the end of the 2011 (2010: RUB 2,050 million; 2009: RUB 1,507 million). This amount was included in accounts payable as at 31 December 2011. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operations, since the amounts are included in the balance of accounts payable at period ends.

(c) Taxation contingencies

Taxation system

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Reclassification of sales contracts in 2011

The Group acts as co-investor and transfers the title for certain residential properties to customers upon respective completion on state registration of titles with general investor. In some cases the Group is unable to receive registration on time. As a result the Group customers obtain the ownership by court decision.

In 2011 upon receiving court notification the Company filed revised tax returns for the period 2009 – 2011. The tax authorities have revised the treatment of respective sales contracts being VAT exempt to cession contracts since the Group has not recognized formal transfer of title to customers. Accordingly the tax authorities charged additional VAT, fines and penalties based on inspection of submitted tax returns.

Should the Group failed to defend its position additional tax charges of RUB 140 million may be levied to the Group based the cases identified by the tax authorities.

Tax implications of interest expense deductions

In 2009 and 2010 one of the Group’s subsidiaries deducted interest expense related to loans provided by the Parent Company based on Management’s interpretation of the Tax Code. Should the tax authorities successfully challenge the Group’s tax position as not being in full conformity with applicable tax legislation, additional tax charges of RUB 1,167 million may be levied to the Group. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

Other tax contingencies

As at 31 December 2011 other contingent liabilities related to taxation amounted to approximately RUB 700 million (2010: RUB 600 million).

(d) Warranties and guarantees for work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is sold, which, in accordance with applicable law, is a period of up to three years from the date of the sale. Based upon prior experience with warranty claims, which have not been significant, no liabilities have been recognised in the consolidated financial statements in relation to warranties and guarantees for work performed.

31 Related party transactions

(a) Control relationships

As at 31 December 2009, 2010 and 2011 there were no immediate or ultimate parent companies of the Group.

As at 31 December 2011 the Nafta Moskva Group and its ultimate owner Mr. Suleiman Kerimov controlled approximately 38.3% of the Company’s ordinary shares, and, thus, exercised significant influence over the operations of the Group.

(b) Management remuneration

(i) Salaries and bonuses

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

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Salaries and bonuses	129	100	543
Contributions to State Pension Fund	3	1	7
	132	101	550

(ii) Share-based compensation

In December 2011 one of the Group's subsidiary entered into agreements with 10 key executive members of the Group. The purpose of the agreements is to remunerate Group's executives for their contribution in the Group's success by means of bonus payments, subject to certain conditions, which, among others, include continuance of employment with the Group on 10 August 2012 and 10 August 2014, growth of the Group's share price and performance of the Group's shares against the industry peers. The bonus, if any, will be settled 50% in shares with the remainder payable in cash. The employees will be entitled to receive 2/3 of the bonus amount, if any, on 25 August 2014 and the remaining amount on 20 August 2015, subject to all performance conditions being met.

Management believes that the fair value of the share appreciation rights at the grant date is negligible since the expected share price at either vesting date is lower than the price which will trigger each bonus payment. Therefore, no related expense has been recognized in the consolidated statement of income as at and for the year ended 31 December 2011

(c) Transactions with other related parties

During 2010 and 2009 the Group's other related party transactions were with the entities controlled by the Founding Shareholders (K. Pisarev and Y. Zhukov). On 21 June 2011 the Founding Shareholders ceased to have representatives on the Company's Board of Directors. As a result, transactions and balances with such entities are no longer disclosed as related party transactions.

In May 2009 the Group provided a guarantee to a bank in relation to the bank loan of USD 75 million received by a related party participated as co-investor in Park City. The facility is used to finance predevelopment of the project. The loan beared variable interest rate of 14 % and matured in 2011. The guarantee was granted at nil consideration.

	2011 min RUB	2010 mln RUB	2009 mln RUB
Sales to related parties			
Sales of apartments to executive directors	71	-	60
Sales of apartments to an insurance company controlled by Founding Shareholders	-	-	116
Sales of assets to a related party controlled by Founding Shareholders (refer note 11(c))	-	-	660
Interest income accrued on a loan receivable from the party related to Founding Shareholder	-	172	142
	71	**172**	**978**
Purchases from related parties			
Payments under property insurance contacts to an insurance company controlled by Founding Shareholders	29	20	47
	29	**20**	**47**

(d) Related party balances

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Loans receivable (15% per annum) from executive director	-	-	15
Loan receivable from the party related to Founding Shareholder	-	580	951
Loans issued to an equity accounted investee, net of impairment	-	-	488
Accounts receivable under sale of shares of a related party bank controlled by Founding Shareholders	-	-	11
Cash and cash equivalents at related party bank controlled by Founding Shareholders	-	-	1,369
Accounts receivable under co-investment agreements with a related party controlled by Founding Shareholders	-	381	-
	-	**961**	**2,834**
Accounts payable under construction contact with an equity accounted investee	-	1,207	909
Loans payable and promissory notes due to companies related to Shareholders	-	323	40
Accounts payable under co-investment agreements with a related party controlled by Founding Shareholders	-	94	-
Advances received under sales of apartments:			
Executive directors	-	-	30
Insurance company related to Founding Shareholders	-	-	67
	-	**1,624**	**1,046**

32 Significant subsidiaries

As of 31 December 2011 the Group controlled 124 legal entities (31 December 2010: 120; 31 December 2009: 130). 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	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%	100%	100%
OOO MFS-PIK	Russia	100%	100%	100%	100%	100%	100%
OAO DSK-2	Russia	98%	98%	98%	98%	98%	98%
OAO DSK-3	Russia	87%	87%	87%	87%	87%	87%
OOO PIK-Invest	Russia	100%	100%	100%	100%	100%	100%
Viniso Investments Limited	Cyprus	75%	75%	75%	75%	75%	75%
OAO 100 KGI	Russia	92%	92%	92%	92%	92%	92%
OAO 480 KGI	Russia	100%	100%	100%	100%	100%	100%
Sturm Properties Limited	Cyprus	-	-	54%	-	-	54%

33 Events subsequent to the reporting date

Refinancing of a major loan

In March 2012 the Group renegotiated the repayment terms with respect to its major loan facility. The new terms reduce the principal amount payable in 2012 from RUB 10,408 million to RUB 1,801 million. The difference will be payable in 2013-2014.

34 Supplementary information: non-IFRS measures

Net debt:

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Loans and borrowings, current	19,522	39,062	32,013
Plus: Loans and borrowings, non-current	27,549	4,916	6,277
Less: Cash and cash equivalents	(2,874)	(4,350)	(3,417)
	44,197	**39,628**	**34,873**

Earnings before interest, tax, depreciation and amortisation:

	2011 mln RUB	2010 mln RUB	2009 mln RUB
Profit/(loss) for the year	4,805	(6,045)	(11,482)
Plus: Depreciation and amortisation	736	759	860
Plus: Interest expense and penalties payable	5,871	5,599	7,634
Less: Interest income and reversal of penalties	(1,340)	(325)	(400)
Less: Income tax expense/(benefit)	1,607	(2,051)	868
	11,679	**(2,063)**	**(2,520)**

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Independent Auditors' Report

The Board of Directors

OAO Group of Companies PIK

We have audited the accompanying consolidated financial statements of OAO Group of Companies PIK (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2011, 31 December 2010, 31 December 2009 and 1 January 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

In 2009, the Group entered into a number of transactions with an entity for which indications exist that it may be a related party. Management has been unable to identify the beneficial owners of this entity to determine whether these transactions, comprising accrual of interest expense and related penalties of RUR 1,130 million, repayment of a loan of RUR 1,969 million and the sale of a subsidiary for a consideration of RUR 2,077 million, are related party transactions. It was impracticable to satisfy ourselves as to whether this entity is a related party. Accordingly, we were unable to determine whether the disclosure of related party transactions and outstanding balances as at and for the year ended 31 December 2009, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures,* is complete. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2009 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's disclosures and the corresponding disclosures.

Opinion

In our opinion, except for the possible omission of the disclosure described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 31 December 2010, 31 December 2009 and 1 January 2009, and its financial performance and its cash flows for the years ended 31 December 2011, 31 December 2010 and 31 December 2009 in accordance with International Financial Reporting Standards.

Emphasis of Matter

During the year the Group changed its accounting policy for capitalisation of borrowing costs and also made certain other adjustments to its previously issued consolidated financial statements. The reason for and the effects of these adjustments are described in Note 2(f) to the consolidated financial statements. We have audited the adjustments described in Note 2(f) that were applied to restate the prior years consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

ZAO KPMG

ZAO KPMG
27 April 2012