JSC OPIN

Consolidated Financial Statements Prepared in Accordance with International Financial Reporting Standards and Independent Auditor's Report

31 December 2011

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Independent Auditor's Report

To the Shareholders and Board of Directors of JSC OPIN

1 We have audited the accompanying consolidated financial statements of JSC OPIN and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 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.

Auditor's Responsibility

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

4 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 judgement, 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.

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

11 April 2012

Moscow, Russian Federation

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JSC OPIN
Consolidated Statement of Financial Position

(in thousands of US dollars)	Note	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	5	17 330	24 051	29 793
Capital advances		377	583	57 286
Investment property	6	932 131	874 294	1 272 899
Investment property under development	7	-	50 000	53 300
Deferred tax assets	16	181 213	195 883	127 366
Investments held to maturity	9	9 523	-	-
Other non-current assets		1 872	3 020	10 964
Total non-current assets		**1 142 446**	**1 147 831**	**1 551 608**
Current assets				
Inventories with period of realization above one year	8	280 938	309 646	417 483
Inventories with period of realization during the year	8	84 652	204 042	173 916
Prepayments	10	15 804	18 603	46 995
Receivables	11	21 966	37 545	74 118
Loans issued	12	8 867	-	7 900
Cash and cash equivalents	13	21 475	12 116	74 590
Total current assets		**433 702**	**581 952**	**795 002**
TOTAL ASSETS		**1 576 148**	**1 729 783**	**2 346 610**
EQUITY AND LIABILITIES				
Equity				
Share capital	14	568 667	570 570	570 570
Additional capital	15	1 887 498	1 887 414	1 897 861
Uncovered loss		(759 833)	(792 269)	(278 073)
Translation difference		(677 899)	(616 103)	(609 878)
Total equity		**1 018 433**	**1 049 612**	**1 580 480**
Non-current liabilities				
Deferred tax liabilities	16	111 291	103 949	137 804
Long-term loans and borrowings received	17	31 070	17 460	300 207
Total non-current liabilities		**142 361**	**121 409**	**438 011**
Current liabilities				
Short-term loans and borrowings	17	286 285	327 972	102 077
Accounts payable	18	42 890	47 358	30 436
Current tax liabilities	21	9 244	9 527	3 138
Provisions	19	9 213	7 247	-
Advances from customers	20	67 722	166 658	192 468
Total current liabilities		**415 354**	**558 762**	**328 119**
Total liabilities		**557 715**	**680 171**	**766 130**
TOTAL EQUITY AND LIABILITIES		**1 576 148**	**1 729 783**	**2 346 610**

These consolidated financial statements have been approved by the management and signed on 11 April 2012.

General Director — A.S. Krylov

Financial Director — I.M. Sheremetiev

Notes on pp. 6 to 61 are an integral part of these consolidated financial statements.

(in thousands of US dollars)	Note	2011	2010 (restated)
Revenue			
Revenue from sales of residential property and land plots	24	223 688	102 154
Revenue from sales of goods		44 104	39 107
Revenue from other services		2 315	2 971
Revenue from construction contracts	23	60	7 029
Total revenue		**270 167**	**151 261**
Cost of sales			
Cost of sales of residential property and land plots	25	(147 201)	(76 488)
Cost of goods sold	25	(38 663)	(38 228)
Cost of other services		(463)	(376)
Cost of construction contracts	23	(20 740)	(20 489)
Inventory write-down		(39 851)	(43 326)
Total cost of sales		**(246 918)**	**(178 907)**
Gross profit/(loss)		**23 249**	**(27 646)**
Selling, administrative and general expenses	26	(34 191)	(26 270)
Gain/(loss) from change in fair value of investment property and investment property under development	6,7	110 444	(457 074)
Loss from impairment of premises, plant and equipment	5	-	(8 361)
Gain on subsidiaries disposal	30	-	6 591
Interest income		467	1 402
Financial expenses	27	(20 607)	(39 012)
Net loss from operations with foreign currency		(2 950)	(3 782)
Loss on disposal of investment property and investment property under development	6,7	(2 455)	(27 037)
Other income		2 431	2 204
Other expenses	28	(11 216)	(33 216)
Profit/(loss) before tax		**65 172**	**(612 201)**
Income tax	16	(32 736)	87 558
Profit/(loss) for the year		**32 436**	**(524 643)**
Other comprehensive losses			
Translation difference		(61 796)	(6 225)
Total other comprehensive losses		**(61 796)**	**(6 225)**
Total comprehensive loss for the year		**(29 360)**	**(530 868)**
Earnings/(loss) per share:			
Basic and diluted earnings/(loss), USD	29	2.12	(34.33)

(*in thousands of US dollars*)	**Share capital**	**Additional capital**	**Revaluation reserve**	**Uncovered loss**	**Translation difference**	**Total equity**
Previously recognised balance as at 31 December 2009	**570 570**	**1 897 861**	**133 676**	**(411 749)**	**(609 878)**	**1 580 480**
Adjustment result (Note 2)	-	-	(133 676)	133 676	-	-
Adjusted balance as at 1 January 2010	**570 570**	**1 897 861**	**-**	**(278 073)**	**(609 878)**	**1 580 480**
Transfer (Note 15)	-	(10 447)	-	10 447	-	-
Comprehensive losses						
Loss for the year	-	-	-	(524 643)	-	(524 643)
Other comprehensive losses for the year	-	-	-	-	(6 225)	(6 225)
Total comprehensive loss for the year	-	-	-	(524 643)	(6 225)	(530 868)
Balance as at 31 December 2010	**570 570**	**1 887 414**	**-**	**(792 269)**	**(616 103)**	**1 049 612**
Repurchase of treasury shares (Note 14, 15)	(1 903)	84	-	-	-	(1 819)
Comprehensive income/ (losses)						
Profit for the year	-	-	-	32 436	-	32 436
Other comprehensive losses for the year	-	-	-	-	(61 796)	(61 796)
Total comprehensive income / (loss) for the year	-	-	-	32 436	(61 796)	(29 360)
Balance as at 31 December 2011	**568 667**	**1 887 498**	**-**	**(759 833)**	**(677 899)**	**1 018 433**

(in thousands of US dollars)	**Note**	**2011**	**2010**
Cash flows from operating activities			
Profit/(loss) before tax		65 172	(612 201)
Adjustments:			
Depreciation of premises, plant and equipment and amortisation of intangible assets		1 919	4 212
Loss/(gain) from disposal of property, plant and equipment	5	891	(1 520)
Gain on subsidiaries disposal	30	-	(6 591)
Net loss from operations with foreign currency		2 950	3 782
Loss on disposal of investment property and investment property under development	6,7	2 455	27 037
Inventory write-down	8	39 851	43 326
Interest income		(467)	(1 402)
Change in provision for doubtful debts	28	7 498	4 217
Change in provisions	19	3 824	7 272
Non-recoverable VAT write off	28	393	13 857
(Gain)/loss from change in fair value of investment property and investment property under development	6,7	(110 444)	457 074
Impairment loss on non-current assets	5	-	8 361
Financial expenses	27	20 607	39 012
Cash from operating activities before changes in current assets		**34 649**	**(13 564)**
Decrease/(increase) in inventories		112 404	(5 230)
Decrease in other assets		816	100
Decrease in receivables under construction contracts		13 578	20 268
(Increase)/decrease in trade and other receivables		(2 109)	6 297
(Increase)/decrease in advances paid		(5 201)	29 151
Decrease/(increase) in trade and other accounts payable		(3 911)	19 785
Decrease in advances received from customers		(99 169)	(23 442)
(Decrease) / increase in current tax liabilities other than on income tax		(3 622)	710
Cash from operating activity		**47 435**	**34 075**
Interests paid		(36 334)	(36 278)
Income tax paid		(7 001)	(10 016)
Net cash from/(used in) operating activities		**4 100**	**(12 219)**

(in thousands of US dollars)	**Note**	**2011**	**2010**
Movements in cash flows from investment activities			
Loans issued		(10 906)	(250)
Proceeds from loans repaid		1 968	5 993
Disposal of subsidiaries adjusted by net cash of disposed entities	30	-	30 774
Acquisition of investments held to maturity		(9 687)	-
Interest received		90	266
Proceeds from sale of investment property and investment property under development		50 254	1 261
Acquisition of investment properties		(45)	(31 277)
Proceeds from sale of property, plant and equipment		3 098	1 991
Acquisition of property, plant and equipment and other non-current assets		(3 216)	(1 497)
Acquisition of investment properties under development		-	(5 012)
Net cash from investing activities		**31 556**	**2 249**
Movements in cash flows from financing activities			
Decrease in finance lease payables		(129)	-
Repurchase of treasury shares	14,15	(1 819)	-
Loans and borrowings received		95 236	50 000
Loans and borrowings repaid		(121 087)	(101 614)
Net cash used in financing activities		**(27 799)**	**(51 614)**
Effect of exchange rate changes on cash and cash equivalents		1 502	(890)
Net increase/(decrease) in cash and cash equivalents		9 359	(62 474)
Cash and cash equivalents at the beginning of the year	13	12 116	74 590
Cash and cash equivalents at the end of the year	13	21 475	12 116

Interest expenses capitalised by the Group during the year ended 31 December 2011 amounted to USD 20 262 thousand (31 December 2010: USD 3 757 thousand). This interest was fully paid as at 31 December 2011 and 31 December 2010, respectively.

1 Nature of Business

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for JSC OPIN (“the Company”) and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011.

The Group's main activities include development and investment operations in the Russian real estate market. The Company was incorporated in Moscow, Russian Federation, on 4 September 2002 as an open joint-stock company under the laws of the Russian Federation. The principal operating office of the Company is located at 13/1 Tverskoy blvd., Moscow, 123104, Russian Federation.

The controlling shareholder of the Company is Onexim Holdings Limited. The ultimate beneficiary of Onexim Holdings Limited is Mikhail D. Prokhorov.

Brief description of major activities

Land bank

At 31 December 2011, the Group held 38 373 hectares of land located in Moscow, Tver and Vladimir Regions of Russian Federation (31 December 2010: 38 384 hectares) (Refer to Note 6).

Residential property

In the year ended 31 December 2011, the Group was engaged in development of the following residential cottage communities in the Moscow Region:

Pavlovo-2 Cottage Community

Pavlovo-2 cottage community is located 14 km from Moscow following Novorizhskoye Highway and includes three types of development: cottage development consisting of 146 single-family houses, 71 townhouses with 290 apartments and 8 low-height multi-family houses with 380 apartments.

Pestovo Cottage Community

Pestovo Cottage Community is located 22 km from Moscow following Dmitrovskoye Highway. The community is located on the shore of the Pestovo Water Reservoir and consists of 415 single-family houses.

Martemianovo Cottage Community

Martemianovo Cottage Community is located 27 km from the Moscow Ring Road following Kievskoe Highway. In the reporting period the Group offered for sale land plots without cottages as well as cottages under construction in this cottage community. The total area of the land in this cottage community is 128 hectares as at 31 December 2011 and 2010.

1 Nature of Business (Continued)

Commercial property development

At 31 December 2010, the Group was engaged in a single commercial development project - A.I. Raikin Retail and Entertainment Center in Moscow. In 2011, this property was sold at the stage of construction (Note 7).

Frame-panel houses

Frame-panel houses are designed, engineered and manufactured by the Group's subsidiary located in Canada. Houses are mainly sold to individuals and professional contractors in Canada, US and Japan. The Group also uses some of the produced houses for constructing own real estate property in the Russian Federation.

Operating environment of the Group

Economics of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 33).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management made provisions for impairment of property, plant and equipment (Note 5), inventory write-down (Note 8) and adjusted fair value of investment properties (Notes 6 and 7) by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

The Group also carries out operational activity in Canada, country with stable political and economic environment. In 2011 the economic environment in Canada was favourable, and this fact stipulated the absence of significant risks, aligned with assets impairment, credit, currency and interest risks

Going concern

The consolidated financial statements of the Group have been be prepared based on the going concern assumption envisaging realisation of assets and repayment of debt in the normal course of business.

In making this judgement, management considered the Group's financial position, current intentions, profitability of operations and access to financial resources and also the analysis of the financial crisis influence on future operations of the Group

At 31 December 2011, the Group had net current liabilities of USD 262 590 thousand (calculated without inventories with period of realisation above one year). The net cash inflow from operating activities for 2011 amounted to USD 4 100 thousand. Loans and borrowings of USD 286 285 thousand which are repayable by 31 December 2012 were included in the current liabilities.

In order to assess the ability of the Group to meet its obligations as they fall due, management has prepared a cash flow projection for 2012. The key assumptions are as follows:

- In January-April 2012, the Group has negotiated the attraction of long-term loans of USD 258 158 thousand secured by investment property and inventories. These funds will be partially allocated for repayment of loans from ING Bank N.V. (short-term liability of USD 103 121 thousand as of 31 December 2011) and JSC Moscow Credit Bank (short-term liability of USD 46 165 thousand as of 31 December 2011). The attracted loans can also be partially used for repayment of other loans in 2012 unless these loans are restructured. Period of repayment of these loans is from 2-d quarter of 2013 up to the 2-d quarter of 2014.

1 Nature of Business (Continued)

- The Group negotiates with the creditors about prolongation of short-term loans and borrowings. In January 2012 the Group prolonged maturity period to one year for the one of the non bank borrowing in the amount of USD 18 323 thousand .
- The Group will continue to generate cash from its development activities and sale of cottages and land plots under current projects which, due to high level of completeness, are expected to generate positive net cash flows of USD 30 000-40 000 thousand in 2012.

In addition, during 2012 the Group intends to expand its activities and launch new projects using additional sources of debt and financial instruments.

In connection with the uncertainty which currently prevails in the credit and capital markets, the controlling shareholder has confirmed to management that the Group will receive financial support in the foreseeable future if the need arises.

The Group's ability to continue its operations on basis of going concern concept is dependent upon certain matters outside of its direct control, including the matter of availability of financing. Management believes that the matters referred to above will ensure that the Group will continue its operation on the basis of going concern concept and accordingly these consolidated financial statements have been prepared on that basis and as such no adjustments to the carrying value of the Group's assets and liabilities are required.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies

Basis of consolidated financial statements preparation

These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention except for:

- valuation of subsidiaries at fair value at the date of acquisition in accordance with IFRS 3, Business Combinations;
- valuation of investment property at fair value under IAS 40, Investment Property;
- valuation of inventories at net realisable value if it was lower than their original cost under IAS 2, Inventories;
- valuation of financial instruments at amortised cost in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

Hereafter is a summary of the significant accounting policies applied by the Group in preparing these consolidated financial statements.

Statutory accounting principles and procedures in the countries where the Group's subsidiaries are incorporated substantially differ from those generally accepted under IFRS. Accordingly, consolidated financial statements of the Group, which has been prepared based on the local statutory accounting records of Group's entities domiciled in the Russian Federation and Canada, were adjusted to be presented in accordance with IFRS.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

This consolidated financial statement is presented in thousands of US dollars (“USD”), except for earnings per share indicator, or unless otherwise stated.

Changes in the accounting policies

In these consolidated financial statements the Group used the same accounting policies as those used in preparation of the consolidated financial statements for the year ended 31 December 2010 except for a) changes in the accounting policy and consolidated financial statements presentation described in Note 2, and b) changes in accounting policies that were implemented because of the adoption of new and revised standards and interpretations (Note 3).

Functional and presentation currency

The functional currency of the Group's entities except for Growth Technologies (Russia) Limited, Onigomati Investment Limited, Opin Capital Inc. and Viceroy Homes Limited, is Russian rouble (“RR”). The functional currency of Growth Technologies (Russia) Limited and Onigomati Investment Limited is US dollar. The functional currency of Viceroy Homes Limited and Opin Capital Inc. is Canadian dollar (“CAD”). Growth Technologies (Russia) Limited and Onigomati Investment Limited are incorporated in Cyprus; Viceroy Homes Limited and Opin Capital Inc are incorporated in Canada.

The presentation currency of the Group is US dollar because management believes the use of US dollars is more convenient and relevant for users of the consolidated financial statements.

The translation into US dollars of the financial statements of the Group's subsidiaries with a functional currency other than US dollars is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at each reporting date;
- All items included in the consolidated statement of changes in equity, other than net profit, are translated at historical exchange rates;
- All income and expenses in the consolidated income statement are translated at exchange rates in effect when the transaction occurred. For those transactions that occurred evenly over the period an average exchange rate for the period is applied;
- Resulting exchange differences are recognised in other comprehensive income line and accumulated in the consolidated statement of changes in equity as “Translation Difference”; and
- In the consolidated statement of cash flows, cash balances at the beginning and the end of each year presented are translated at exchange rates in effect at the beginning and at the end of each reporting period, respectively. All cash flows are translated at exchange rates in effect when the cash flows occurred. For those cash flows that occurred evenly over the period, an average exchange rate for the period is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as “Effect of Currency Exchange Rates”.

As at 31 December 2011 and 2010, exchange rates of RR 32,20 and RR 30,48 to USD 1 were used, respectively for translation purposes. The average exchange rates for the years ended 31 December 2011 and 2010 were RR 29,39 and RR 30,37 to USD 1, respectively.

As at 31 December 2011 and 2010, exchange rates of CAD 0,98 and CAD 1,01 to USD 1 were used, respectively, for translation purposes. The average exchange rates for the years ended 31 December 2011 and 2010 were CAD 1,01 and CAD 0,97 to USD 1, respectively.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

The RR is not a freely convertible currency outside the territory of the Russian Federation. Accordingly, translation of amounts in RR into USD should not be considered as a representation that RR amounts have been, or in the future will be converted into USD at the exchange rate shown or at any other exchange rate.

Foreign currency translation

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) and Bank of Canada at the respective reporting dates. Foreign exchange gains and losses resulting from settlement of transactions and from translation of monetary assets and liabilities into a separate entity’s functional currency at year-end official exchange rates of the CBRF are presented separately in the consolidated income statement. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in foreign currency are recorded as part of the fair value gain or loss.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Subsidiaries' financial statements are prepared for the same reporting period as the Company's financial statements. If required, subsidiaries' financial statements are restated in order to bring them into compliance with the Group's accounting policies.

All intra-group transactions, balances and any unrealised profits or losses arising from intra-group transactions are fully eliminated during consolidation process.

The Group did not have non-controlling interest in 2011 and 2010.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The premium paid for acquired subsidiary is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Acquisition transaction costs incurred for issuing equity instruments are deducted from equity; acquisition transaction costs incurred for issuing debt are deducted from their carrying amount and all other transaction costs associated with the acquisition are expensed.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of the acquirer’s previously held equity interest before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Non-controlling interests that existed at the acquisition date and entitled their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

If the initial recognition of a business combination is not completed as at the end of the reporting period in which the transaction occurs the consolidated financial statements present estimated amounts on items whose measurement is not yet completed. These estimated amounts are adjusted (additional assets and liabilities may be recognised as well) during a measurement period (see the above) as the Company searches out facts and circumstances existing at the acquisition date that would have impacted the amounts recognised as at the date if they had been known at that time.

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost calculated as described above. Goodwill is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated primarily to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Disposal of subsidiaries

When the Group ceases to have control over the subsidiary, any retained interest in the entity is remeasured at its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount recognized for the purposes of subsequently accounting for the retained fraction as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are transferred to profit or loss.

Intangible assets

Intangible assets are initially measured at purchase cost and are amortised on a straight-line basis over their estimated useful lives, which is in a range of 2-5 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Property, plant and equipment

Property, plant and equipment other than owner-occupied property transferred from investment properties is carried at historical cost less accumulated depreciation and any accumulated impairment loss. The actual cost of property, plant and equipment includes major expenditures for improvements and replacements that extend the useful life of an asset or increase asset's revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the consolidated income statement as incurred.

Owner-occupied property transferred from investment properties carried at fair value is transferred to property, plant and equipment at cost that equals its fair value at the date of such transfer and subsequently accounted for at this cost less accumulated depreciation and accumulated impairment losses.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Construction in progress includes costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred during construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

Depreciation on property, plant and equipment is applied to write the asset off over its estimated useful life. Depreciation is applied on a straight-line basis using the following useful lives:

	Useful life in years
Premises	40
Buildings	10-15
Machinery and equipment	5-20
Transport	5
Furniture and office equipment	7-3

The estimated useful life and amortisation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The result arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Leasehold improvements are amortised over the useful life of the related leased assets. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

Capital advances

Capital advances represent amounts paid to vendors for capital construction, acquisition of property, plant and equipment, land plots and investment property. Capital advances are carried at actual cost less any accumulated impairment loss.

Investment property

Investment property is a property (land or building – or part of a building – or both) held by the Group to earn rentals or for capital appreciation or both. At the same time the Group itself does not use its investment property. Investment property also includes land plots with currently undetermined future use which comprises land for which the Group has not determined whether it will use the land as owner-occupied property or treat it as land held for sale in the ordinary course of business.

Investment property is originally recorded at cost. Subsequent expenditure relating to investment property is added to the carrying amount of the investment property only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and the cost can be measured reliably. All other subsequent expenditures are recognised as expenses in the period in which they are incurred.

The Group has made elected to use the fair value model to measure investment property subsequent to initial recognition. And as the result investment property is stated at fair value in the Group’s consolidated statement of financial position. Gains and losses arising from changes in the fair value of investment property are included in the consolidated income statement in the year in which they arise.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, independent and willing parties in an arm’s length transaction. A “willing seller” is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

Valuation techniques to measure fair value and main assumptions are disclosed in Note 4, Section "Fair Value of Investment Property and Investment Property under Development".

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Transfers to, or from, investment property are made when, and only when, there is a change in use, mostly evidenced by:

- for a transfer from investment property to inventories or assets held for sale - commencement of development with a view for sale, based on reassessment by management of further use;
- for a transfer from inventories to investment property – commencement of an operating lease with third party.

Investment property under development

Investment property under development includes commercial property under development and land under development for commercial purposes.

Investment property under development is originally recorded at cost. Subsequent expenditure relating to an investment property under development is added to the carrying amount of the investment property only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and the cost can be measured reliably. All other subsequent expenditures are recognised as an expense in the period in which they are incurred.

The Group has decided to use the fair value model to measure investment property under development subsequent to initial recognition. As the result the investment property under development is stated at fair value in the Group's consolidated statement of financial position. Gains and losses arising from changes in the fair value of investment property under development are included in the consolidated income statement in the year in which they arose.

Valuation techniques to measure fair value and main assumptions are disclosed in Note 4, Section "Fair Value of Investment Property and Investment Property under Development".

Commercial property under development

Commercial property under development represents buildings that are being constructed for future use as investment property. When the construction is completed, such buildings are transferred to investment property.

Inventories

Inventories are measured at the lowest of two values: the acquisition cost or possible net realisable value. Inventories transferred from investment property or investment property under development carried at fair value are recorded at fair value at the date of transfer and subsequently are measured at the lowest of two values: the acquisition cost or possible net realisable value.

When recognising inventories write off in cost of sale the Company measures these inventories considering cost identified on a property-by-property basis for cottages and on the average weighted cost method for flats in low-height buildings and townhouses.

Cost of land plots relating to townhouses and apartments is included in cost of residential property sold upon sale of townhouses and apartments and pro rata a portion of townhouses and apartments sold to the total tenancy in common.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion (development) and costs necessary to make the sale.

The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Impairment of tangible and intangible assets excluding goodwill

At each period end, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the highest of net realisable value and value in use. 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 associated with the asset for which the estimates of future cash flows have not been adjusted.

If an asset does not generate a cash flow independent from other assets, for the purpose of testing for impairment, assets are combined into the smallest group for which there is a cash flow independent from other assets or groups of assets; and in relation to such group - value in use is determined. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. Otherwise cash generating units are combined into larger groups of assets for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating group) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating group) is reduced to its recoverable amount. Impairment loss is recognised in the consolidated income statement at a time.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating group) is increased to the revised estimate of its recoverable amount, but in a way that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating group) in prior years. Recovery of impairment loss is recognised in the consolidated income statement at a time.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the accounted period. Taxable profit differs from profit reported in the consolidated income statement because it excludes items of income or expense that are never taxable or deductible in other periods. The Group’s liability for current tax is calculated using tax rates that have been enacted by the period end in accordance with the laws of the Russian Federation, Canada, US and Cyprus. The Group operates and owns property on the USA territory.

Deferred tax

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax balances are measured at tax rates enacted or declared at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Deferred tax assets and deferred tax liabilities are offset and reflected in consolidated financial statement when:

- The Group has a legally enforceable right to set off current tax assets against current tax liabilities;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognized as an expense or income in the consolidated income statement, except when they relate to items included to other comprehensive income or directly to equity, in which case the tax is also recognised in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with banks, and also short-term placements with banks. Cash equivalents include short-term placements with banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of evaluation of financial instruments, cash relates to the category "Loans issued and receivables".

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value, actual cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions, and apply the bid or asking price to the net open position as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Actual cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and unamortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Income relating to debt instruments is recorded using the effective interest method except for financial assets at fair value through profit or loss.

Initial recognition and classification of financial assets

Financial assets are recognised in the Group's consolidated statement of financial position, when the Group is a party to the contract in respect of applicable financial instruments, and are initially recognised at fair value plus costs directly attributed to the cost of acquisition or issue of financial asset, except for financial assets at a fair value through profit or loss which are initially recognised at their fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss; investments held to maturity; available-for-sale financial assets, loans and receivables. Their classification depends on their substance and purpose for which such financial assets are used and is determined upon initial recognition.

Investments held to maturity

Debentures with fixed payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Accounts receivable are stated at cost less any allowance for doubtful accounts. Such provisions reflect either specific cases or estimates based on evidence of collection.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. The subsequent return of the amounts already written off are credited against the allowance. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset when (a) the assets are repaid or contractual rights to the cash flows from such asset expire; or (b) the Group transfers the title to cash flows from financial assets or executes a transfer agreement and (i) also transfers substantially all the risks and rewards associated with ownership of the asset, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership, but loses control over the transferred asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, netted of direct transaction costs, and subsequently measured at amortised cost using the effective interest method.

Disposal of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average refinancing rate (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment gain on the temporary investment of those borrowings are capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

The Group does not capitalize borrowing costs attributable to qualifying assets that are carried at fair value – investment property and investment property under development.

Prepayments

Prepayments are carried at actual cost less provision for impairment. Prepayments are classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share capital and additional paid-in capital

Share capital is recognised at actual cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Excess of fair value of funds received above par value is reflected as additional capital.

External costs directly attributable to the issue of new shares, other than in a business combination, are deducted from equity net of any related income taxes.

Dividend income

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the ”Events after the reporting date” note.

Treasury shares

If the Company or its subsidiaries acquire any shares in the Company, any contribution paid, including any costs directly attributed to such transaction, less income tax, are deducted from the total amount of equity payable to the Company's shareholders up to the time of redemption, re-issue or sale of such shares. If such shares are subsequently sold or re-issued, any contribution received, less any additional costs associated with the transaction, and respective income tax, is included in the equity payable to the Company's shareholders.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Leases

Leases under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Group as a lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease payable.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent lease payments are recognised as expenses in the periods in which they are incurred.

The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating lease payments are recognised as expenses on a straight-line basis over the lease term. Contingent lease payments arising under operating leases are recognised as expenses in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the period end, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Warranty provision accrued in the reporting period is recognised within the cost of sales of property and cost under construction contracts.

Value added tax

Value added tax (VAT) related to sales is payable to tax authorities on the earliest of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Revenue recognition

The Group recognises revenue from sale of residential properties when there is a sufficient probability that significant risks and rewards of ownership are 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.

Revenue from realisation of frame-panel houses recognised in total revenue in the moment, when risks and rewards aligned with the object are transferred. Usually it's happened during moment of goods shipment. In case if Group take responsibility to deliver goods to the warehouse of Buyer, revenue is recognised at the moment of goods transfer in destination place.

Revenue is recognised net of VAT and discounts.

Construction contracts

The Group concludes contracts with its clients for construction of houses and communal infrastructure on land plots owned by the Group. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Revenue from construction contracts comprises the initial amount of revenue agreed in the construction contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

The Group concludes contracts in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses. Contractual costs comprise costs that relate directly to the specific construction contract; costs that are attributable to contract activity in general and can be allocated to the contract; and other costs as are specifically chargeable to the customer under the terms of the construction contract.

When the outcome of a construction contract can be estimated reliably, contract revenue and associated contract costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the period end, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. An expected loss on a construction contract is recognised as an expense immediately.

Cottages construction contracts stipulate constriction period, which are agreed with customers. On occasion situations happened, when period of construction is violated due to the different reasons, and in result customer has the right to terminate the contract. At the every balance sheet date in operational construction contracts, Group detects construction contracts in respect of which non-compliance with construction terms has been identified or expected and estimate probability of termination of such contracts on the basis of historical data on actual terminations. Based on the results of such estimation, the Group suspends recognition of revenue and costs under construction contracts, for which probability of contract termination is high and reverses earlier recognised revenue and costs under such construction contracts in the consolidated income statement.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work (receivables). For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work (payables). Amounts received before the related work is performed are included in the consolidated statement of financial position, as advances received from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position as receivables under construction contracts.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond statutory insurance contributions.

Contingencies and commitments

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for tax positions that are determined by management as more likely than not to result in additional tax liabilities being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of reporting period.

Segmental information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of managerial reports used by the Group's chief operating decision maker to oversee operations and make decisions on allocating the resources. The Group has identified the General Director as its chief operating decision maker and the managerial reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These managerial reports are prepared on the same basis as these consolidated financial statements.

Based on current management structure, the Group has identified four reportable segments: land holdings, residential property, fabricated homes and commercial property development. The Group's operations are based in the Russian Federation, Canada, US and Japan (realisation of prefab buildings).

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between operating segments. Such transfers are accounted for at competitive market prices charged to unaffiliated counteragents for similar services. Those transfers are eliminated on consolidation.

Expenses, which cannot be directly attributed to a segment, are not allocated to segments.

Amendment of the consolidated financial statements after issue

Any restatements to these consolidated financial statements may be made only if approved by the Group management which authorised these consolidated financial statements for issue.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Adjustments

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Presentation of revenue from sale and cost of sales of residential property, land plots and goods

In 2011, the Group management revised its accounting policy applicable to presentation of revenue from sales of residential property, land and goods. As the Group's residential property and land represent a homogeneous population of inventory in the Group's cottage communities, the Group decided to present revenue from their sale and their cost, respectively, as a single line in the consolidated income statement.

Below, in table, presented effect of this adjustment on comparative data from 2010 consolidated statement of comprehensive income:

Caption of the consolidated statement of comprehensive income ***(in thousands of US dollars)***	**2010 (before reclassification)**	**Reclassification**	**2010 (after reclassification)**
Revenue from sale of residential property and land plots	-	102 154	102 154
Revenue from sales of goods	99 565	(60 458)	39 107
Revenue from land plots sold	41 696	(41 696)	-
Total	**141 261**	**-**	**141 261**
Cost of sales of residential property and land plots	-	76 488	76 488
Cost of goods sold	80 820	(42 592)	38 228
Cost of land sold	33 896	(33 896)	-
Total	**114 716**	**-**	**114 716**

Reclassification of long-term loan into short-term

As at 31 December 2010, the Group disrupted a financial covenant related to the amount of net assets under a long-term loan agreement with ING Bank N.V. In result, long term loan with ING Bank N.V in the amount of USD 99 765 thousand, presented in consolidated financial statement at 31 December 2010 as long term, should be presented as short term, due to the creditor’s right to claim this loan back because of covenant breach. In these consolidated financial statements comparative data at 31 December 2010 was adjusted to reflect this loan within short-term loans and borrowings.

Below in the table presented effect of this adjustment on comparative data at 31 December 2010 in the consolidated statement of financial position:

Caption of the consolidated statement of financial position ***(in thousands of US dollars)***	**31 December 2010 (before reclassification)**	**Reclassification**	**31 December 2010 (after reclassification)**
Long-term loans and borrowings	117 225	(99 765)	17 460
Total long-term liabilities	**221 174**	**(99 765)**	**121 409**
Short-term loans and borrowings	228 207	99 765	327 972
Total short-term liabilities	**458 997**	**99 765**	**558 762**

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Reclassification of inventory from non-current to current

In the consolidated financial statement at 31 December 2010 the Group recognized inventories with the period of realization above one year within non-current assets. In these consolidated financial statements comparative information as at 1 January and 31 December 2010 has been adjusted to recognise inventories with period of realization above one year within current assets as these inventories will be realized within one operating cycle.

Corresponding reclassification, done in the consolidated statement of financial position as at 31 December 2010 and 1 January 2010 presented in the tables below:

Caption of the consolidated statement of financial position (*in thousands of US dollars*)	**31 December 2010 (before reclassification)**	**Reclassification**	**31 December 2010 (after reclassification)**
Non-current assets			
Inventories	309 646	(309 646)	-
Total non-current assets	**1 457 477**	**(309 646)**	**1 147 831**
Current assets			
Inventories with period of realization above one year	-	309 646	309 646
Total current assets	**272 306**	**309 646**	**581 952**

Caption of the consolidated statement of financial position *(in thousands of US dollars)*	**1 January 2010 (before reclassification)**	**Reclassification**	**1 January 2010 (after reclassification)**
Non-current assets			
Inventories	417 483	(417 483)	-
Total non-current assets	**1 969 091**	**(417 483)**	**1 551 608**
Current assets			
Inventories with period of realization above one year	-	417 483	417 483
Total current assets	**377 519**	**417 483**	**795 002**

Presentation of consolidated statement of comprehensive income

Starting from the year of 2011 the Group's management made a decision to present the consolidated statement of comprehensive income as one statement in which profit/(loss) for the period and other comprehensive profits/(losses)are both presented.

Reclassification of revaluation reserve

The Group transferred the revaluation reserves, relating to land classified as inventories and booked before the land was transferred to inventories, to uncovered loss within equity. Due to this correction, the Group restated its comparables in the consolidated statement of financial position as at 1 January 2010 and 31 December 2010 .

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

The effect of this adjustment to presentation of data in the consolidated financial statements as at 31 December and at 1 January 2010 is disclosed in the table below:

Caption of the consolidated statement of financial position (*in thousands of US dollars*)	**31 December 2010 (before reclassification)**	**Reclassification**	**31 December 2010 (after reclassification)**
Revaluation reserve	95 680	(95 680)	-
Uncovered loss	(887 949)	95 680	(792 269)
Total	**(792 269)**	**-**	**(792 269)**

Caption of the consolidated statement of financial position *(in thousands of US dollars)*	**1 January 2010 (before reclassification)**	**Reclassification**	**1 January 2010 (after reclassification)**
Revaluation reserve	133 676	(133 676)	-
Uncovered loss	(411 749)	133 676	(278 073)
Total	**(278 073)**	**-**	**(278 073)**

Reflection of a decrease in the fair value of investment property

In consolidated financial statements for the year, ended 31 December 2010, the Group reflected loss from a decrease in the fair value of investment property, related to the allowance, which had been created in period of recognition of these objects in inventories, as part of other aggregate losses in other statement of comprehensive income. While preparing these consolidated financial statements and in connection with the above reclassification this loss was recognised in profit or loss in the consolidated statement of comprehensive income.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

The effect of this adjustment to presentation of data in the consolidated statement of comprehensive income for 2010 is disclosed in the table below:

Caption of the consolidated statement of comprehensive income ***(in thousands of US dollars)***	**2010 (before adjustment)**	**Adjustment**	**2010 (restated)**
Loss from changes in the fair value of investment property	(438 463)	(18 611)	(457 074)
Loss before tax	**(593 590)**	**(18 611)**	**(612 201)**
Income taxes	83 836	3 722	87 558
Net loss for the year	**(509 754)**	**(14 889)**	**(524 643)**
Decrease of revaluation reserve resulting from change of investment property fair value	(18 611)	18 611	-
Deferred income tax related to decrease of revaluation reserve resulting from change of investment property fair value	3 722	(3 722)	-
Total other comprehensive losses	**(21 114)**	**14 889**	**(6 225)**
Total comprehensive loss for the year	**(530 868)**	**-**	**(530 868)**

The consolidated statement of financial position as of 1 January 2010 is presented in these financial statements as a result of the above described changes in presentation. The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. The Group's management considered materiality and concluded that it is sufficient for the Group to present such information only in those notes that have been impacted by a restatement or a reclassification, and state in the consolidated financial statements that the other notes have not been impacted by the restatement or reclassification. Therefore, in management's view, the omission of the notes to the consolidated statement of financial position as of 1 January 2010 is not material.

The reclassifications in the consolidated statement of financial position had an impact on information in Notes 8 and 17 and had no impact on any other captions in the consolidated statement of financial position and related note disclosures.

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations

Standards and Interpretations which became effective in the reporting year

In the reporting period, the Group adopted all new International Financial Reporting Standards (“IFRS”) and Interpretations ("IFRIC") issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB that are relevant to its operations, and that became effective for periods beginning on 1 January 2011.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. These amendments did not have an impact on these consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow carrying amounts under previous accounting standards to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree’s share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity’s financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments to IFRS 7 resulted in additional and revised disclosures but they did not have a material impact on assessment or recognition of transactions reported in these consolidated financial statements. Other amendments did not have an impact on these consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments. This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. This Interpretations did not have an impact on the consolidated financial statements.

Standards and Interpretations in issue not yet adopted

At the date of approval of the Group’s consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the current year:

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

New or revised IFRS and Interpretations issued by IASB	Effective for annual periods beginning on or after
IAS:	
Amendments to IAS 1, Presentation of financial statements The amendments relate to changes in presentation of items in the statement of comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future.	1 July 2012
Amendments to IAS 12, Income Taxes - Recovery of Underlying Assets The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.	1 January 2012
Amendment to IAS 19, Employee Benefits The Amendment makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.	1 January 2013
Revised IAS 27, Consolidated and separate financial statements Its objective is now to prescribe the accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements	1 January 2013
Revised IAS 28, Investments in Associates and Joint Ventures The change relates to equity accounting for joint ventures - this requirement is now included in IAS 28 as this method is applicable both for joint ventures and associates.	1 January 2013
Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014
IFRS:	
IFRS 9, Financial Instruments : Classification and Measurement.	1 January 2015

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

New or revised IFRS and Interpretations issued by IASB	Effective for annual periods beginning on or after
IFRS 9 was issued in November 2009 and replaced those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 in respect of the following changes :(i) effective date for annual periods beginning on or after 1 January 2015 and (ii) adding transition disclosures. The main differences from IFRS 39 are as follows: • Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. • An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss. • All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.	
IFRS 10, Consolidated financial statements IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control.	1 January 2013
IFRS 11, Joint Arrangements Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.	*1 January 2013*
IFRS 12, Disclosure of Interest in Other Entities IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in bank activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.	*1 January 2013*
IFRS 13, Fair Value Measurement Aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.	1 January 2013
Disclosures – Transfers of Financial Assets – Amendments to IFRS 7	1 July 2011

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

New or revised IFRS and Interpretations issued by IASB	Effective for annual periods beginning on or after
The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.	
Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7	1 January 2013
The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.	

The Group has not early adopted these new and revised standards. An impact of adoption of these Standards and Interpretations on the consolidated financial statements of future periods is currently being assessed by management.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed by the Group on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Fair value of investment property and investment property under development

In compliance with its accounting policies, the Group is required to recognise investment property and investment property under development at fair values, which are derived from a number of sources, namely market prices, independent appraisers and management estimates. These estimates are based on valuation techniques which require judgement in predicting future cash flows and developing other assumptions. Due to absence of an active market for certain of the Group's assets, the estimation of fair value of these assets include assumptions not directly supportable by observed market prices or rates.

Investment property is revalued annually as at 31 December of the reporting year.

The carrying amounts of the Group's assets carried at fair value (where gains and losses arising from changes in the fair value are recognised in the consolidated income statement) as of 31 December 2011 and 2010 are as follows:

(in thousands of US dollars)	31 December 2011	31 December 2010
Investment property (Note 6)	932 131	874 294
Investment property under development (Note 7)	-	50 000

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Management's assessment of fair value of agricultural land plots included in the Group's investment property has been performed by using the sales comparison method, which involves a review of available data on sales offers of comparable properties and making adjustments in the prices to reflect the differences between the properties offered and the properties owned by the Group. Key assumptions within the valuation model include the adjustments applied for comparability purposes, the time period over which land assets could optimally be realized (sold), future price growth, and the discount rate.

For the purpose of fair value of the land plots, being investment property, the Group management considers these land plots on an aggregate basis and presumes that all the land plots owned by the Group, will not be realized at once.

The fair value of investment property (entirely represented by land plots) included in the consolidated financial statements at 31 December 2011 and 31 December 2010 is the result of a management valuation. The Group engaged an international valuation company to prepare valuation of its land assets using the sales comparison method. As a result of review of the independent valuer's report, management of the Group revised certain of the key assumptions within a similar model due to the significant uncertainty associated with the estimation of the timing of the future cash flows generated by this land. The revisions reflected a longer time period to optimally realise land assets and a reduced level of future price growth which resulted in lower valuation of the land plots compared to the figure generated by the independent valuer.

The following major assumptions were used by management in their analysis:

Assumption	31 December 2011
Source of cash inflows	Sale of land
Discount rate	11%-23%
Expected period of sale of land	2012-2026
Land selling price in 2012, USD per 1,00 square metres (the price range reflects locations of land)	284-49 500
Projected increase in selling prices	6%-8% growth in 2012-2018, then decreasing to 3% (Odintsovsky District - remaining at the level of 4%)

Assumption	31 December 2010
Source of cash inflows	Sale of land
Discount rate	14%-20%
Expected period of sale of land	2011-2025
Land selling price in 2012, USD per 1,00 square metres (the price range reflects locations of land)	296-52 000
Projected increase in selling prices	7% in 2012-2013, then decreasing to 2%

Due to considerable uncertainty related to estimation of future cash flows, management carried out a sensitivity analysis of fair value of land plots. It was identified that the estimation was sensitive to the following assumptions: increase and decrease of selling prices by 5%, a 1% change in the discount rate and selling periods becoming one year longer. If the selling price of land increased /decreased by 5%, the carrying value of investment property would have increased/decreased by USD 52 838 thousand (31 December 2010: USD 50 680 thousand). If the length of selling period increased for one year, the carrying value of investment property would have decreased by USD 111 805 thousand (31 December 2010: USD 105 272 thousand). If the discount rate increased/decreased by 1%, the carrying value of investment property would have decreased/increased by USD 47 490 thousand (31 December 2010: USD 47 683 thousand).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The fair value of properties under development is based on the income approach. In accordance with this approach, the value is determined based on estimated future cash receipts generated by the asset and the related costs. The principal assumptions underlying the estimation of the fair value are those related to: expected capital expenditures, the expected receipt of contractual rentals, expected future market rentals; expected vacancy rates, future maintenance requirements, and discount and capitalisation rates.

The fair value of commercial property under development (represented by A.I. Raikin retail and office centre in Moscow) included in the Group's consolidated financial statements at 31 December 2010 is the result of a management valuation of cost of potential sale of current object. In 2011 this object was sold (Note 7).

Assumptions used by the Group's management for determining the fair value of investment property and investment property under development are applicable at a specific date and depend on market conditions. During 2010, the real estate market in Moscow experienced a stabilisation in rental rates and in demand. During 2011, there was improvement on real estate market. Access to finance continues to be restricted. Significant uncertainties remain, particularly in respect of the Group’s land bank where no active market can be observed.

Assessment of net realisable value of inventories

Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices and inventory cost, among other things, relating to events occurring subsequent to the period end to the extent that such events confirm conditions existing at the end of the period.

In assessing net realisable value of the land plots and cottage communities included in the Group’s inventory balance, management used selling prices as per current price lists as adjusted for expected discounts granted to customers.

Based on the assessment of inventories as of 31 December 2011 and 2010, management of the Group believes that all necessary adjustments have been made to state inventories at their net realisable value where it is lower than cost in the Group’s consolidated statement of financial position. If selling prices increased or decreased by 5% as of 31 December 2011, the carrying value of inventories would be increased by USD 6 223 thousand or decreased by USD 7 841 thousand (31 December 2010: increased by USD 3 274 thousand or decreased by USD 3 597 thousand), accordingly.

Recognition of revenue under cottage construction contracts

The Group operates a large number of construction contracts in respect of cottage construction. In order to determine whether the revenue under such contracts should be recognised as revenue under construction contracts or revenue from sales of goods, management assessed such criteria as the customer's ability to impact construction details of the cottage and determined that the customer has such ability upon signing the contract prior to certain stage of construction. This threshold was determined at the level of 70% completion of property. Therefore, if the contract is signed prior to achievement of 70% completion of the cottage, such contract is classified as construction contract (IFRS (IAS) 11 ‘Construction contracts’) and revenue and cost associated therewith are recognised in proportion to its completion. If the contract is signed after 70% of completion is achieved, IAS 18 ‘Revenue’ is applied instead of IAS 11.

If the contract is classified as a construction contract, then determination of the outcome of the contract fulfilment requires assessment of costs to complete, the customers' ability to comply with the payment terms of the contract, and the consequences of any delays by the Group in completing its contract obligations.

Management considered the detailed criteria for the recognition of revenue from construction contracts in terms of assessment of probability of completion of such contract. In order to make the above estimations of final outcome on contracts, management has analysed historical contract performance, including the historical level of contract cancellations and the outcomes on claims arising from contract delay. It has also assessed the position regarding any claims arising subsequent to the reporting date.

Following a detailed review of the Group’s construction contracts, management is satisfied that the revenue and profit for such contracts in the reporting period were recognised appropriately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Recognition of revenue from sales of land plots, finished cottages, town houses and apartments

The Group determines the time of recognition of revenue from sales of land plots, completed cottages, town houses and apartments in cottage communities based on their analysis of the time of transfer of key risks and rewards to the customer.

Impairment of property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of an asset or a cash-generating unit. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As at 31 December 2011 no signs of impairment were observed. The discount rate as at 31 December 2010 was 15%. In 2010, the Group recognised an impairment loss from property, plant and equipment amounting to USD 8 361 thousand.

The determination of impairment of property, plant and equipment involves the use of estimates that include the cause, timing and amount of the impairment. Impairment may be based on a number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

Claims provisions

The consolidated statement of financial position as at 31 December 2011 and 2010 includes claims provision amounting to USD 4 255 thousand and USD 7 247 thousand respectively. This provision reflects the best estimation of management in respect of potential losses related to the risk of cancellation of construction contracts with customers. The final expected outcome of construction contracts depends on a number of factors. If the level of claims to the Group increases in the future, the effective liabilities may be considerably higher.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations which changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover early periods.

Deferred income tax

Deferred tax assets are reviewed at each period end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognised in the consolidated statement of comprehensive income.

The Group recognises deferred taxation on fair value changes to investment property assets at the Russian statutory rate. Tax that is ultimately payable upon realisation of the assets can be affected by the specific tax regulations applicable to the disposal transaction and may vary depending upon a number of factors. The Group may also realise the value of an asset through the generation of income from holding the asset which may lead to a differing taxation treatment. Tax ultimately payable upon realization of the asset may therefore differ from the amounts reflected in the consolidated financial statements.

5 Property, Plant and Equipment

(in thousands of US dollars)	Land and buildings	Fittings and fixtures	Trans-port, machi-nery and equip-ment	Furniture and office equip-ment	Construc-tion in progress	Total
Cost						
Balance at 1 January 2010	**16 248**	**2 601**	**19 319**	**3 098**	**6 206**	**47 472**
Additions	4 452	25	36	35	1 601	6 149
Assets put into operation	-	-	-	12	(12)	
Disposals	-	(1 250)	(620)	(633)	(1 190)	(3 693)
Disposal of subsidiaries (Note 30)	-	(52)	(417)	(259)	(1 077)	(1 805)
Transfer to investment property (Note 6)	(12)	-	-	-	-	(12)
Transfer to inventories	-	-	-	-	(76)	(76)
Translation difference	905	48	1 020	20	(41)	1 952
Balance at 31 December 2010	**21 593**	**1 372**	**19 338**	**2 273**	**5 411**	**49 987**
Additions	189	77	436	393	2 803	3 898
Assets put into operation	-	-	-	2	(2)	-
Transfer to investment property (Note 6)	(4 561)	-	-	-	-	(4 561)
Disposals	(4 434)	(222)	(324)	(5)	(453)	(5 438)
Translation difference	(99)	(39)	(452)	(129)	(486)	(1 205)
Balance at 31 December 2011	**12 688**	**1 188**	**18 998**	**2 534**	**7 273**	**42 681**
Accumulated depreciation						
Balance at 1 January 2010	**1 210**	**1 799**	**10 233**	**1 734**	**2 703**	**17 679**
Accrued for the year	602	203	2 614	449	-	3 868
Recognition of loss from impairment of premises, plant and equipment	-	-	6 151	-	2 210	8 361
Disposals	-	(1 250)	(446)	(366)	(1 161)	(3 223)
Disposal of subsidiaries (Note 30)	-	(52)	(338)	(231)	(1 077)	(1 698)
Translation difference	90	26	815	40	(22)	949
Balance at 31 December 2010	**1 902**	**726**	**19 029**	**1 626**	**2 653**	**25 936**
Accrued for the year	630	244	260	421		1 555
Disposals	(544)	(133)	(315)	(5)	(453)	(1 450)
Translation difference	(43)	(25)	(423)	(97)	(102)	(690)
Balance at 31 December 2011	**1 945**	**812**	**18 551**	**1 945**	**2 098**	**25 351**
Carrying amount						
At 31 December 2010	**19 691**	**646**	**309**	**647**	**2 758**	**24 051**
At 31 December 2011	**10 743**	**376**	**447**	**589**	**5 175**	**17 330**

As of 31 December 2011, no property, plant and equipment were pledged as collateral under loans and borrowings received by the Group. In 2011, the Group capitalised interest on loans within construction in progress of USD 308 thousand (2010: 0).

5 Property, Plant and Equipment (Continued)

In 2011, the Group did not identify any signs of impairment of property, plant and equipment.

In 2010, the Group reviewed the recoverable amount of its property, plant and equipment. The recoverable amount of property, plant and equipment was determined on the basis of their value in use. As a result of this review, the Group recognised an impairment loss from property, plant and equipment of USD 8 361 thousand, Part of this loss in amount USD 6 151 thousand refer to premises and buildings owned by the Group and located in Canada. This property refers to the 'frame-panel houses' segment. Its cost was determined by evaluating future cash flows using a 15% discount rate. The remaining amount of USD 2 210 thousand refers to a fully impaired commercial property development project.

6 Investment Property

The Group's investment property is represented by land with indefinite future use located in different Russian regions. The basis of fair valuation of investment property and valuation assumptions are summarised in Note 4.

(in thousands of US dollars)	2011	2010
Balance at 1 January	**874 294**	**1 272 899**
Additions	599	78 178
Transfer from property, plant and equipment	4 561	12
Disposals	(1 093)	(28 298)
Changes in fair value as a result of revaluation	110 444	(443 539)
Translation difference	(56 674)	(4 958)
Balance at 31 December	**932 131**	**874 294**

The carrying amounts of land by region are as follows:

	31 December 2011		**31 December 2010**		**Type of authorized use**
	Area, ha	**Net book value (in thousands of US dollars)**	**Area, ha**	**Net book value(in thousands of US dollars)**	
Klinsky District Moscow Region	10 676	261 520	10 676	262 300	A/c, SPT
Mytishinsky District, Moscow Region	1 124	297 015	1 110	228 410	A/c, IHC
Dmitrovsky District, Moscow Region	7 488	276 802	7 513	292 020	A/c
Kalyazinsky District, Tver Region	3 986	10 050	3 986	8 730	A/c, IHC
Kashinsky District Tver Region	7 975	34 328	7 975	27 965	A/c
Kesovogorsky District, Tver Region	3 635	3 176	3 635	3 003	A/c
Odintsovsky District, Moscow Region	30	45 700	30	48 657	A/c, LHC
Suzdalsky District, Vladimir Region	611	1 191	611	1 097	A/c
Yuriev-Polsky, Vladimir Region	2 848	2 349	2 848	2 112	A/c
Total	**38 373**	**932 131**	**38 384**	**874 294**	

6 Investment Property (Continued)

A/c- for agricultural use;
SPT - specially protected territories;
IHC - individual housing construction;
LHC - low-height housing construction

At 31 December 2011, investment property with a carrying value of USD 249 385 thousand (31 December 2010: USD 135 455 thousand) was transferred as collateral for received loans (Note 17).

During 2011, the Group incurred operating expenses of USD 622 thousand (2010: USD 1 223 thousand) with regard to investment property. These expenses mainly include land tax.

During 2011, the Group sold 3 ha of land located in Mytishinsky District and transferred 25 ha of land located in Dmitrovsky Region to individuals free of charge. Total loss from these transactions amounted to USD 839 thousand. This loss was reflected in losses from disposal of investment property and investment property under development in the consolidated statement of comprehensive income.

During 2010 the Group sold 836 ha of land with carrying amount of USD 28 219 thousand located in Dmitrovsky Region to a related party and 29 ha of land with carrying amount of USD 79 thousand located in Mytischy Region to a third party. The gain from sale to the third part amounted to USD 311 thousand. The loss from the sale of land to the related party amounted to USD 27 348 thousand (Note 30).

7 Investment Property under Development

(in thousands of US dollars)	2011	2010
Balance at 1 January	**50 000**	**53 300**
Additions	155	10 631
Disposals	(51 616)	-
Changes in fair value	-	(13 535)
Translation difference	1 461	(396)
Balance at 31 December	**-**	**50 000**

The basis of fair valuation of investment properties and valuation assumptions are summarised in Note 4. In September 2011, the only project disposed from investment property under development was A.I. Raikin Retail and Entertainment Centre. This property was sold to a third party for USD 50 000 thousand. The loss from the disposal of this property was USD 1 616 thousand.

8 Inventories

(in thousands of US dollars)	31 December 2011	31 December 2010
Inventories with period of realization above one year		
Land under development held for sale (a)	158 902	189 331
Residential property under development held for sale (b)	96 414	104 833
Infrastructure (c)	25 622	15 482
Total inventories with period of realization above one year	**280 938**	**309 646**
Inventories with period of realization during the year		
Land under development held for sale (a)	25 210	41 322
Residential property under development held for sale (b)	24 350	45 855
Infrastructure (c)	1 141	10 576
Finished products (d)	30 813	101 196
Other inventories	3 138	5 093
Total inventories with period of realization during the year	**84 652**	**204 042**
Total inventories	**365 590**	**513 688**

8 Inventories (Continued)

Inventories recorded at cost and net realisable value are as follows:

(in thousands of US dollars)	31 December 2011	31 December 2010
At cost	291 848	437 142
At net realisable value	73 742	76 546
Total	**365 590**	**513 688**

During 2011, the Group capitalised borrowing costs of USD 19 954 thousand (2010: USD 3 757 thousand) within inventories.

In 2011, the Group recognised a decrease in the value of inventories of USD 39 851 thousand (2010: USD 43 326 thousand). Net realisable inventory provision comprised at 31 December 2011 USD 54 823 thousand. (31 December 2010: USD 43 173 thousand).

At 31 December 2011, inventories with a carrying value of USD 86 224 thousand (31 December 2010: USD 151 137 thousand) were provided as collateral for received loans (Note 17).

(a) Land under development held for sale

Land under development held for sale includes land in the Group's cottage communities (Note 1) and comprises the following main groups:

- land plots with houses which the Group builds under construction contracts; and
- land plots offered by the Group for sale without construction contracts.

(b) Residential property under development held for sale

Residential property under development held for sale, includes cottages, apartments in low-height buildings, townhouses and other residential properties under construction and development forming a part of the Group's cottage communities (Note 1).

Residential property under development held for sale includes property in respect of which the Group has concluded construction contracts with a completion degree of more than 70% and property which the Group builds for sale without construction contracts.

(c) Infrastructure

Infrastructure includes cottage communities' infrastructure facilities to be subsequently sold or transferred to commercial organisations or non-commercial partnerships.

(d) Finished goods

Finished goods include cottages, apartments in low-height buildings and townhouses whose construction was completed as at the reporting date.

9 Investments Held to Maturity

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Promissory notes issued by banks (neither overdue nor impaired) (Standard&Poor's RUA+ rated)	9 523	-
Total investments held to maturity	**9 523**	**-**

10 Prepayments

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Prepayments	23 897	21 674
Less provision for impairment of prepayments	(8 093)	(3 071)
Total prepayments	**15 804**	**18 603**

Movements in the doubtful debt provisions for 2011 and 2010 are as follows:

(In thousands of US dollars)	**2011**	**2010**
Balance at 1 January	**3 071**	**7 898**
Accrual of provision for impairment during the year	7 053	3 082
Bad debts written off	(1 356)	-
Disposal of subsidiaries (Note 30)	-	(7 749)
Translation difference	(675)	(160)
Balance at 31 December	**8 093**	**3 071**

Changes in the provisions for advances issued during the reporting period are recorded in other expenses (Note 28).

11 Receivables

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Financial assets within receivables		
Receivables under construction contracts (Note 22)	13 999	27 881
Trade receivables	3 793	2 448
Other receivables	886	508
Provision for doubtful debts	(143)	(97)
Total financial assets within receivables	**18 535**	**30 740**
Value added tax recoverable	1 345	1 871
Prepaid current income tax	1 050	4 023
Deferred costs	311	736
Other taxes prepaid	725	175
Total receivables	**21 966**	**37 545**

11 Receivables (Continued)

The analysis by credit quality of receivables at 31 December 2011 and 31 December 2010 is as follows:

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Neither past due nor impaired	18 087	30 740
Total neither past due nor impaired	**18 087**	**30 740**
Past due but not impaired		
- less than 180 days overdue	286	-
- from 181 to 360 days overdue	162	-
Total past due but not impaired	**448**	**-**
Past due and impaired		
- from 181 to 360 days overdue	-	97
- over 360 days overdue	143	-
Total past due and impaired	**143**	**97**
Provision for impairment of receivables	**(143)**	**(97)**
Total financial assets within receivables	**18 535**	**30 740**

At 31 December 2011 accounts receivable in amount of USD 18 087 thousand (31 December 2010: USD 30 740 thousand) was not overdue or impaired, and there were not any cases of delays with payment previously. These debtors don’t have an external individual credit rating. The Group evaluated these debtors as sustainable.

The analysis of financial risks with regard to financial assets within receivables is provided in Note 34

According to the Group's management opinion, the estimated fair value of financial assets within receivables approximates their carrying value.

12 Loans Issued

(in thousands of US dollars)	**Interest rate**	**Currency**	**31 December 2011**	**31 December 2011**
Loans issued (unrated)	3,0%-11%	US dollars, Russian roubles	8 867	-
Total loans issued			8 867	-

13 Cash and Cash Equivalents

(in thousands of US dollars)	31 December 2011	31 December 2010
Short-term deposits with banks with a maturity of less than 3 months	16 924	7 479
Rouble-denominated accounts with banks	2 763	2 220
Currency-denominated accounts with banks	1 784	2 407
Cash in hand	4	10
Total cash and cash equivalents	**21 475**	**12 116**

At 31 December 2011, short-term rouble-denominated deposits with banks were placed at 4,25-5,5% p.a. with a maturity not later than 1 February of 2012 (31 December 2010: 2,7% p.a. with a maturity of 16 days).

The analysis by credit quality of cash equivalents is provided in the table below:

	31 December 2011		31 December 2010	
(in thousands of US dollars)	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
Neither past due nor impaired				
- RUAA+ rated by S&P	1 949	10 915	1 440	5 000
- A(positive) by Expert RA	-	6 009	-	-
- Unrated	2 598	-	3 187	2 479
Total cash equivalents	**4 547**	**16 924**	**4 627**	**7 479**

According to the Group's management the estimated fair value of cash and cash equivalents does not differ significantly from their carrying value.

14 Share Capital

	31 December 2011	31 December 2010
Authorised Number of ordinary shares authorised for issuance with nominal value RR 1 000 per share, pcs	25 280 221	17 180 000
Including:		
Number of treasury shares with nominal value RR 1 000 per share, pcs	59 428	-

Movements in share capital (*in thousands of US dollars)*

Ordinary shares issued and fully paid

At 1 January and 31 December 2010: 15 280 221 ordinary shares at par value of RR 1 000 each	570 570
Repurchase of treasury shares: 59 428 ordinary shares	(1 903)
At 31 December 2011: 15 220 793 ordinary shares at par value of RR 1 000 each	568 667

In September 2011, an extraordinary meeting of shareholders of JSC OPIN resolved to decrease JSC OPIN (Company) share capital through purchasing by the Company of a portion of shares for maintaining shares' value. The purchase price was determined on the basis of market prices and amounted to RR 955.65 per Company's one registered ordinary share. As a result of this transaction 59 428 ordinary shares were bought out.

15 Additional Capital

(in thousands of US dollars)	31 December 2011	31 December 2010
Revenue from issue of shares	1 916 947	1 916 947
Revenue from purchase of treasury shares	84	-
Underwriters' services	(25 280)	(25 280)
Legal and consulting services	(4 253)	(4 253)
Total additional capital	**1 887 498**	**1 887 414**

In 2010, the additional remuneration programme for management determined on the basis of share prices, related to previous periods, in the amount of USD 10 447 thousand was transferred from additional paid-in capital to uncovered loss.

16 Income Tax

(in thousands of US dollars)	2011	2010
Deferred income tax	18 768	(95 142)
Current income tax	13 968	7 584
Total	**32 736**	**(87 558)**

The Group's income was subject to income tax on the basis of the following rates:

(in thousands of US dollars)	2011	2010
Russian Federation	20%	20%
Cyprus	10%	10%
USA	35%	35%
Canada	26,5%	29%

The Group calculates income tax for the current period based on tax accounts maintained and prepared under the Russian tax regulations which may differ from IFRS.

The Group is subject to certain permanent tax differences with regard to certain income and expense items due to the fact that certain income and expenses are not deductible.

Deferred tax reflects the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2011 and 2010 relate mostly to different methods of income and expense recognition, as well as to recorded values of certain assets.

The relationship between the income tax expense and the Group's accounting profit for the years ended 31 December 2011 and 2010 is provided below:

(in thousands of US dollars)	2011	2010
Profit/(loss) before tax	**65 172**	**(612 201)**
At the Russian statutory income tax rate of 20%	13 035	(122 440)
Effect of the difference in tax rates in countries other than the Russian Federation	3 761	2 694
Tax effect of non-deductible expenses:		
• Effect of exchange differences	2 173	1 847
• non-deductible expenses for sale of shares	2 419	652
• intercompany transactions	1 923	22 071
• loss from construction contracts for the reporting period	3 438	65
• interest on loans	1 430	-
• other	4 557	7 553
Income tax expense/(credit)	**32 736**	**(87 558)**

16 Income Tax (Continued)

Tax consequences of change of temporary differences between carrying amount of assets and liabilities in purpose of preparation of the consolidated financial statements and their basis for calculation of income tax are presented below:

(in thousands of US dollars)	31 December 2010	Recognised in profit or loss	Translation difference	31 December 2011
Deferred tax assets				
Property, plant and equipment	804	157	(50)	911
Investment property	108 232	(22 280)	(3 870)	82 082
Investment property under development	3 710	(3 848)	138	-
Prior years' losses carried forward	4 726	1 392	(383)	5 735
Receivables	3 460	1 838	(352)	4 946
Total deferred tax assets	**120 932**	**(22 741)**	**(4 517)**	**93 674**
Deferred tax liabilities				
Inventories	(27 607)	4 269	1 172	(22 166)
Payables, loans and borrowings	(1 391)	(296)	101	(1 586)
Total deferred tax liabilities	**(28 998)**	**3 973**	**1 273**	**(23 752)**
Net deferred tax asset/(liability)	**91 934**	**(18 768)**	**(3 244)**	**69 922**

Reflected in the consolidated statement of financial position:

	31 December 2010	31 December 2011
Deferred tax asset	195 883	181 213
Deferred tax liability	(103 949)	(111 291)
Net deferred tax asset	**91 934**	**69 922**

(in thousands of US dollars)	1 January 2010	Recognised in profit or loss	Disposal of subsidiaries	Charged to other comprehen-sive income	31 December 2010
Deferred tax assets					
Property, plant and equipment	579	241	9	(25)	804
Investment property	24 374	85 050	-	(1 192)	108 232
Investment property under development	1 045	2 704	-	(39)	3 710
Prior years' losses carried forward	22 714	(20 743)	2 558	197	4 726
Receivables	-	3 460	-	-	3 460
Payables	89	(107)	(1)	19	-
Total deferred tax assets	**48 801**	**70 605**	**2 566**	**(1 040)**	**120 932**
Deferred tax liabilities					
Inventories	(57 886)	25 095	4 993	191	(27 607)
Receivables	(1 353)	833	556	(36)	-
Payables	-	(1 391)	-	-	(1 391)
Total deferred tax liabilities	**(59 239)**	**24 537**	**5 549**	**155**	**(28 998)**
Net deferred tax (liability)/asset	**(10 438)**	**95 142**	**8 115**	**(885)**	**91 934**

16 Income Tax (Continued)

Reflected in the consolidated statement of financial position:

Deferred tax asset	127 366	195 883
Deferred tax liability	(137 804)	(103 949)
Net deferred tax (liability)/asset	**(10 438)**	**91 934**

Tax loss carry forwards

The Group has recognised potential deferred tax assets in respect of unused tax loss carry forwards of USD 5 735 thousand (2010: USD 4 726 thousand). The tax loss carry forwards expire as follows:

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Tax loss carry-forwards expiring by the end of:		
31 December 2011	-	3 659
31 December 2012	-	-
31 December 2013	-	-
31 December 2014	-	-
31 December 2015	-	-
31 December 2016	4 787	5 328
31 December 2017	986	433
After 31 December 2017	22 902	16 885
Total tax loss carry forwards	**28 675**	**26 305**

The Group also has unrecognised potential deferred tax assets in respect of deductible temporary differences of USD 3 935 thousand (2010: USD 4 485 thousand).

Deferred tax related to subsidiaries

The Group has not recorded deferred tax liabilities in respect of temporary differences of USD 143 687 thousand (2010: USD 145 573 thousand) on investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

17 Loans and Borrowings

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**	**1 January 2010**
Long-term bank loans	31 070	17 460	233 191
Long-term borrowings	-	-	67 016
Total long-term loans and borrowings	**31 070**	**17 460**	**300 207**
Short-term bank loans	203 632	270 154	94 330
Short-term borrowings	82 653	57 818	7 747
Total short-term loans and borrowings	**286 285**	**327 972**	**102 077**
Total loans and borrowings	**317 355**	**345 432**	**402 284**

17 Loans and Borrowings (Continued)

The analysis of financial risks of loans and borrowings received is provided in Note 34. The analysis of the fair value of loans and borrowings received is provided in Note 35.

In 2011, fixed interest rates for rouble-denominated bank loans varied between 12,4% and 14% (2010: no rouble-denominated bank deposits attracted). In 2011, fixed interest rates for currency-denominated bank loans varied between 9% and 11% (2010: between 9,75% and 11%). In 2011, the floating interest rate for currency-denominated bank loans varied from Libor plus 8% to Libor plus 10% (2010: Libor plus 10%).

In 2011 fixed interest rate for currency-denominated borrowings was 15% (2010: varied between 12% and 15%). In 2010 fixed interest rate for rouble-denominated borrowings was 18%.

In 2011, as a result of the restructuring of the loan portfolio the Group incurred additional expenses of 10% of the total loan portfolio as at 31 December 2011 related to receipt of borrowed funds. These expenses are deducted from the debt principal and depreciated over the life of the debt liabilities. This transaction significantly affected the effective interest rate. The above transaction was caused by liquidity deficit in the credit market at the time when the Group borrowed the funds.

At 31 December 2011, the long-term loan of USD 103 121 thousand (2010: USD 99 765 thousand) was reclassified into short-term loans due to non-compliance with financial covenants. After the reporting date this non-compliance was removed following the restructuring aimed at repayment of this loan (Note 36).
At 31 December 2011, investment property with a carrying value of USD 249 385 thousand (2010: USD 135 455 thousand) was provided as collateral for received loans (Note 6).

At 31 December 2011, inventories with a carrying value of USD 86 224 thousand (2010: USD 151 137 thousand) were provided as collateral for received loans (Note 8).

JSC OPIN subsidiaries act as guarantors on loans received by JSC OPIN from ING Bank N.V., VTB Bank (Deutschland) AG, Raiffeisenbank LLC, JSC ACB Rosbank and JSC Moscow Credit Bank.

At 31 December 2011, the total amount of undrawn credit facilities was USD 7 122 thousand (2010: nil).

18 Payables

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Trade payables to suppliers and service providers	11 475	19 637
Lease payable	699	-
Other short-term payables	18 502	20 949
Total financial liabilities within payables	**30 676**	**40 586**
Other long-term payables	125	-
Advances received	2 894	6 621
Payables on settlements with staff	681	151
Other liabilities under construction contracts	8 514	-
Total payables	**42 890**	**47 358**

The analysis of financial risks with regard to payables is provided in Note 34.

The Group's management believes that the estimated fair value of the payables approximates their carrying value.

19 Provisions

(in thousands of US dollars)	Litigation	Guarantee commitments	Other reserves	Total
Balance at 31 December 2009	**-**	**-**	**-**	**-**
Increase in provision charged to profit or loss	7 272	-	-	7 272
Translation effect	(25)		-	(25)
Balance at 31 December 2010	**7 247**	**-**	**-**	**7 247**
Creation/(recovery) of provisions recognized in profit and loss	(1 608)	3 992	1 439	3 823
Utilisation of provision	(1 246)	-	-	(1 246)
Translation difference	(138)	(348)	(125)	(611)
Balance at 31 December 2011	**4 255**	**3 644**	**1 314**	**9 213**

Litigation

At 31 December 2011, completion dates under some of the Group's construction projects expired. Previously, a number of claims have been lodged against the Group on the part of its customers as a result of such delays. The provision represents the Group's evaluation of liabilities under construction contracts and was calculated with due consideration of the historical risk level and the current level of notices of claim.

Guarantee commitments

The Group has guarantee commitments on elimination of construction defects in sold cottages, townhouses and apartments. A provision of USD 3 644 thousand was recognised in the consolidated financial statements as at the end of 2011 with regard to the expected number of claims on guarantees which was determined on the basis of the expected level of costs for elimination of construction defects. It is expected that the balance as of 31 December 2011 will be fully used or reversed by the end of 2016.

20 Advances Received from Customers

(*in thousands of US dollars*)	31 December 2011	31 December 2010
Advances received for property under development	62 339	150 472
Advances received for property under development under construction contracts (Note 22)	5 383	16 186
Total advances received from customers	**67 722**	**166 658**

21 Current Tax Liabilities

(in thousands of US dollars)	31 December 2011	31 December 2010
Current income tax liabilities	7 441	1 874
Other taxes payable	1 803	7 653
Total current tax liabilities	**9 244**	**9 527**

22 Construction Contracts

(in thousands of US dollars)	31 December 2011	31 December 2010
Cumulative incurred construction costs plus recognised profit less recognised losses as of the reporting date	80 954	92 684
Less: progress billings	(80 852)	(80 989)
Total	**102**	**11 695**
Receivables under construction contracts (Note 11)	13 999	27 881
Advances received under construction contracts included in advances received from customers for inventories (Note 20)	(5 383)	(16 186)
Loss recognised within other payables (Note 18)	(8 514)	-
Total	**102**	**11 695**

The Group conclude contracts for construction of cottages and objects of infrastructure. A part of contracts for construction of cottages and most of contracts for construction of objects of infrastructure are classified as contracts for which revenues and cost of sales are recognized at percentage of completion (Note 2).

23 Revenue from and Cost of Construction Contracts

(in thousands of US dollars)	2011	2010
Revenue from cottage construction		
Revenue recognition by completion percentage	1 449	10 632
Revenue adjustment for cancellable and potentially cancellable contracts and as a result of reviewed assumptions on completion percentage and general costs	(10 074)	(31 395)
Revenue from infrastructure construction		
Revenue recognition by completion percentage	8 685	27 792
Revenue from construction contracts	**60**	**7 029**
Cost of cottage construction		
Cost recognition by completion percentage	(1 425)	(8 296)
Cost adjustment for cancellable contracts and as a result of reviewed assumptions on completion percentage and general costs	2 430	18 671
Recognition of identified loss	(756)	-
Cost of infrastructure construction		
Cost recognition by completion percentage	(9 458)	(27 505)
Recognition of identified loss	(11 531)	(3 359)
Cost of construction contracts	**(20 740)**	**(20 489)**

24 Revenue from Sales of Residential Property and Land Plots

(in thousands of US dollars)	2011	2010
Cottages and land plots	95 298	61 259
Townhouses	72 763	37 292
Apartments	55 627	3 603
Total revenue from sales of residential property and land plots	**223 688**	**102 154**

25 Cost of Sales by Nature

Cost of sold residential property and land plots in 2010 and 2011 by nature:

(in thousands of US dollars)	2011	2010
Subcontractors services	105 922	40 678
Cost of land plots	33 077	33 896
Indirect expenses	7 026	1 883
Capitalized interest expenses	1 176	31
Total cost of sales of residential property and land plots	**147 201**	**76 488**

Cost of goods sold includes:

(in thousands of US dollars)	2011	2010
Cost of materials	20 138	19 313
Payroll	8 736	8 851
Depreciation	1 388	2 926
Other expenses	8 401	7 138
Total cost of goods sold	**38 663**	**38 228**

26 Selling, General and Administrative Expenses

(in thousands of US dollars)	2011	2010
Payroll	13 556	8 071
Advertising	3 410	1 396
Rent	2 167	1 488
Consulting services	1 889	1 422
Land tax and property tax	1 764	2 876
Insurance contributions to the pension fund	844	421
Insurance contributions to other non-budget funds	881	644
Other expenses	9 680	9 952
Total selling, general and administrative expenses	**34 191**	**26 270**

27 Financial Costs

(in thousands of US dollars)	2011	2010
Interest on bank loans	36 236	33 368
Interest on other borrowings	4 633	9 401
Less interest capitalised within inventories (Note 8) and fixed assets (Note 5)	(20 262)	(3 757)
Total financial costs	**20 607**	**39 012**

28 Other Expenses

(in thousands of US dollars)	**2011**	**2010**
Impairment of advances paid and receivables written off	7 498	4 217
Other provisions (Note 19)	1 439	-
Loss on disposal of property, plant and equipment	891	-
Write off of non-recoverable VAT	393	13 857
Penalties paid	253	1 852
Charitable contributions	217	-
Provision for litigation (Note 19)	-	7 272
Loss on disposal of other assets	-	657
Other expenses	525	5 361
Total other expenses	**11 216**	**33 216**

29 Earnings per Share

The calculation of the basic and diluted earnings per share is based on the following data:

Basic and diluted earnings per share	**Weighted average number of shares outstanding during the period**	**Net profit/(loss) for the year (USD'000)**	**Earnings/ (loss) per share (USD'000)**
For the year ended 31 December 2011	15 274 284	32 436	2.12
For the year ended 31 December 2010	15 280 221	(524 643)	(34.33)

30 Disposal of Subsidiaries

In September 2011 the Group sold its subsidiary Maryina Rosha Plaza LLC for USD 50 000 thousand. The Company owned A.I Raikin Retail and Entertainment Centre (under construction) classified as investment real estate under development, in substance this transaction was a sale of investment property under development by the Group (Note 7).

During 2011, the following subsidiaries were disposed of by the Group:

In November 2010, the Group sold 100% share in JSC Hotel Novoslobodskaya to related parties for a cash consideration of USD 24 119 thousand.

In November 2010, the Group sold a 100% share in LLC OPIN Plaza to related parties for a cash consideration of USD 8 128 thousand.

In November 2010, the Group sold a 100% share in Estate Management LLC and OI Management Company LLC along with shares in their subsidiaries Pavlovo LLC, Lukino LLC, Lukino-Invest LLC, Regional development LLC, OPIN Yug LLC, Pavlovo Podvorye LLC, Stroy Invest Group LLC to a third party for a cash consideration of USD 193 thousand.

The analysis of assets and liabilities of the disposed subsidiaries in 2010 and calculation of gain on disposal is as follows:

30 Disposals of Subsidiaries (Continued)

(in thousands of US dollars)	
Assets	
Goodwill	504
Property, plant and equipment (Note 5)	107
Intangible assets	3
Deferred tax assets (Note 16)	23
Inventories	34 942
Value added tax recoverable	991
Trade receivables	407
Other receivables	4 783
Loans issued to third parties	1 830
Cash and cash equivalents	1 666
Total assets	**45 256**
Liabilities	
Deferred tax liabilities (Note 16)	8 138
Short-term loans and borrowings	7 620
Trade and other payables	2 654
Other taxes payable	15
Current income tax liabilities	10
Advances from customers	970
Total liabilities	**19 407**
Net assets disposed off	(25 849)
Cash consideration received	32 440
Gain on disposal	**6 591**

Net cash inflow on disposal is as follows:

(in thousands of US dollars)	
Consideration received in cash	32 440
Less: cash and cash equivalent balances disposed off	(1 666)
Net cash inflow on disposals	**30 774**

In October 2010, the Group sold its subsidiary, Lukus LLC, for a cash consideration of USD 871 thousand. This subsidiary held land plots classified as investment property and in substance this transaction represented a disposal of investment property by the Group (Note 6).

31 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making business decisions or exercise joint control. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The related parties of the Group with which the Group had transactions during the reporting period are classified into the following quality categories:

(a) enterprises that directly or indirectly through one or more intermediaries control, or are controlled by, or are under common control with, the Group;
(b) key management personnel, that is persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group;

The Group's balances with related parties as at 31 December 2011 and 2010 are as follows:

	31 December 2011	**31 December 2010**
(in thousands of US dollars)	**Balances with related parties under common control**	**Balances with related parties under common control**
Short-term loans and borrowings	25 130	21 656
Cash and cash equivalents	6 008	-

During 2011-2010 the Group received a loan from a related party at 15% p.a. in USD with capitalisation of interest. In 2011, the Group placed a deposit with a related bank in USD at 4,5% p.a. maturing on 1 February 2012.

Related party transactions in 2011 and 2010 are set out below:

	Year ended 31 December 2011		**Year ended 31 December 2010**	
(in thousands US dollars)	**Related party transactions**	**Key management personnel transactions**	**Related party transactions**	**Key management personnel transactions**
Revenue under construction contracts	-	-	-	523
Revenue from sales of residential property and land plots	-	-	1 954	53
Revenue from rendering other services	-	-	1 435	-
Interest income	69			
Financial expenses	(3 478)	-	(1 673)	-
Loss on disposal of investment properties (Note 6)	-	-	(27 348)	-
Profit/(loss) on disposal of investment properties (Note 30)	-	-	10 682	-
Key management personnel compensation				
Payroll and related taxes	-	2 220	-	985
Payments on termination of labour contracts	-	63	-	38
Insurance	-	10	-	26
Total key management personnel compensation	**-**	**2 293**	**-**	**1 049**

32 Segment Information

Products and services from which reportable segments derive their revenues

The Group has identified the General Director as its chief operating decision maker and management reports used by him to oversee operations and make decisions on resource allocation serve as a basis for information presented.

The Group has determined operating segments based on the information that is reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance. For management purposes the Group is organised into business units based on their products and services, and has four reportable operating segments:

- land holdings (except for land plots classified as inventories);
- residential property (including land plots classified within inventories);
- commercial property development;
- frame-panel houses;

Other operations mainly include consulting services rendered by the Group and contracts for construction of other properties.

Information regarding the Group's reportable segments is presented below.

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

2011 (*in thousands of US dollars*)	Land plots	Residential property	Commer-cial property develop-ment	Frame-panel houses	Other	Total on the Group
Revenue						
External sales	533	224 410	-	44 104	1 120	270 167
Total revenue	**533**	**224 410**	**-**	**44 104**	**1 120**	**270 167**
Operating expenses	(737)	(181 336)	-	(46 729)	(278)	(229 080)
Inventory write-down	-	(39 851)	-	-	-	(39 851)
Profit on change in fair value of investment property	110 444	-	-	-	-	110 444
Loss on investment property disposal	(838)	-	(1 617)	-	-	(2 455)
Claims provision	-	1 608	-	-	-	1 608
Provision on advances paid	-	(6 995)	-	-	-	(6 995)
Profit/(loss) before tax and financing activities by segments	**109 402**	**(2 164)**	**(1 617)**	**(2 625)**	**842**	**103 838**
Finance costs						(20 607)
Loss on foreign currency operations						(2 950)
Unallocated expenses, net						(15 109)
Income tax						(32 736)
Profit for the year						**32 436**

32 Segment Information (Continued)

2010 (*in thousands of US dollars*)	Land plots	Residential property	Commer-cial property develop-ment	Frame-panel houses	Other	Total for the Group
Revenue						
External sales	323	109 398	-	39 107	2 433	151 261
Total revenue	**323**	**109 398**	**-**	**39 107**	**2 433**	**151 261**
Operating expenses	(1 834)	(102 683)	-	(46 608)	(262)	(151 387)
Inventory write-down	-	(43 326)	-	-	-	(43 326)
Impairment of assets	-	-	(2 224)	(6 151)	14	(8 361)
Loss from change in fair value of investment property	(443 539)	-	(13 535)	-	-	(457 074)
Loss on investment property disposal	(27 037)	-	-	-	-	(27 037)
Claims provision	-	(7 272)	-	-	-	(7 272)
(Loss)/gain on disposal of subsidiaries	-	-	(11 674)	-	-	(11 674)
Profit/(loss) before tax and financing activities by segments	**(472 087)**	**(43 883)**	**(27 433)**	**(13 652)**	**2 185**	**(554 870)**
Interest expense						(39 012)
Loss on foreign currency operations						(3 782)
Unallocated expenses, net						(14 537)
Income tax						87 558
Loss for the year						**(524 643)**

Unallocated (expenses)/income, net

(in thousands of US dollars)	2011	2010
Selling, general and administrative expenses	(12 178)	(10 464)
Interest income	468	1 402
Gain on disposal of subsidiaries	-	18 265
Gain/(loss) on disposal of property, plant and equipment	(891)	1 520
Other income	823	684
Impairment of advances paid and receivables written off	(503)	(4 217)
Other provisions	(1 440)	-
Penalties paid	(253)	(1 852)
Write off of non-reimbursable VAT	(393)	(13 857)
Loss on disposal of other assets	-	(657)
Other expenses	(742)	(5 361)
Total unallocated expenses, net	**(15 109)**	**(14 537)**

The accounting policies of reportable segments are the same as the Group's accounting policies described in Note 2. Profit/(loss) before tax in segment table represents the profit earned or the loss incurred by each segment without allocation of certain general and administrative costs, other unallocated income/(expenses), interest expense, gain/loss on foreign currency operations and income tax. This measure is reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

32 Segment Information (Continued)

Segment assets and liabilities

(in thousands of US dollars)	31 December 2011	31 December 2010
Segment assets		
Land plots	1 084 007	1 040 336
Residential property	410 261	566 350
Commercial property development	-	55 315
Frame-panel houses	19 094	25 935
Other	11	1 240
Total segment assets	**1 513 373**	**1 689 176**
Unallocated assets	62 775	40 607
Total assets	**1 576 148**	**1 729 783**
Segment liabilities		
Land plots	225 242	265 523
Residential property	143 815	278 526
Commercial property development	-	6 212
Frame-panel houses	7 098	10 294
Other	-	41
Total segment liabilities	**376 155**	**560 596**
Unallocated liabilities	181 560	119 575
Total liabilities	**557 715**	**680 171**

Segment assets are those operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Other segment information

(in thousands of US dollars)	2011	2010
Additions to non-current assets		
Land holdings	41	32 042
Residential property	2 759	1 329
Commercial property development	-	5 012
Frame-panel houses	337	111
Other	12	-
Unallocated capital expenditures	363	13
Total additions to non-current assets	**3 512**	**38 507**
Segment depreciation		
Residential property	157	160
Frame-panel houses	1 164	3 333
Other	3	56
Unallocated depreciation	231	319
Total depreciation	**1 555**	**3 868**

32 Segment Information (Continued)

Geographical information

The Group operates in four principal geographical areas: Russian Federation, Canada, USA and Japan. Information on geographical location of the Group's revenue from external customers and non-current assets except for investments held to maturity and deferred tax assets is as follows:

(in thousands of US dollars)	2011	2010
Revenue by geographical location		
Russian Federation	226 221	112 153
Canada	26 584	25 134
Japan	15 021	12 119
USA	2 254	1 750
Other	87	105
Total revenue by geographical location	**270 167**	**151 261**

(in thousands of US dollars)	31 December 2011	31 December 2010
Non-current assets by geographical location		
Russian Federation	939 081	933 554
Canada	12 269	17 452
USA	360	942
Total non-current assets by geographical location	**951 710**	**951 948**

33 Capital Commitments and Contingencies

Capital commitments

As at 31 December 2011, the Group did not have any significant commitments on future capital expenditures. As of 31 December 2010, the Group's capital commitments under concluded contracts approximated USD 38 000 thousand.

Operating leases

The Group did not have any significant future rental payments under non-cancellable operation leases in effect as at 31 December 2011 and 2010.

Commitments on cultivation of agricultural land

There are certain risks of forced termination of the right to agricultural land in case of its significant degradation, or in case the land has not been used for agricultural purposes during three years.

In both cases there is a significant interval between establishing the fact of degradation (non-use) of land and termination of rights, during which violations can be eliminated. In addition, termination of rights requires compliance with certain procedures. The Group has set control procedures to decrease the risk of forced termination of rights to its agricultural land. Part of the land is leased to third party agricultural producers, the rest is cultivated.

Taxation contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. In certain cases a tax review may cover earlier periods.

33 Capital Commitments and Contingencies (Continued)

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. Russian transfer pricing legislation applicable to transactions performed before 31 December 2011 or earlier provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of such developments cannot be reliably estimated, however it may be significant in terms of the entity's financial position and/or business activities in general.

The Group includes several companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently by the Group's management; however, it may be significant to the financial position and/or the overall operations of the Group.

At 31 December 2011 in addition to the above transfer pricing matters and potential additional tax charges from non-resident Group companies the Group has other possible tax obligations from exposure to tax risks other than significant, primarily related to income tax, which the management cannot reliably estimate due to inaccuracies in interpretation of tax legislation and insufficient court practice. Management intends to vigorously defend their position and interpretations that were used for determining recognised taxes in these consolidated financial statements if they are challenged by the authorities.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of such developments cannot be reliably estimated, however it may be significant in terms of the entity's financial position and/or business activities in general.

Pension and retirement plans

In accordance with Russian law all of the Group's employees are eligible to receive state pension benefits. At 31 December 2011 and 31 December 2010, the Group was not liable for any supplementary pensions, post-retirement health-care, insurance benefits or retirement indemnities to its current or former employees.

Compliance with loan covenants or conditions

The Group has certain restrictive covenants with regard to loans and borrowings. Non-compliance with these covenants may lead to negative consequences for the Group, including default. At 31 December 2011 and 31 December 2010, the Group observed partial non-compliance with certain financial covenants as regards the loans from ING Bank N.V. in the amount of USD 103 121 thousand (31 December 2010: USD 99 765 thousand) and from VTB BANK (DEUTSCHLAND) AG in the amount of USD 34 042 thousand (31 December 2010: USD 66 186 thousand), namely a decrease in the net value of the Group's net assets under IFRS below the prescribed minimal level (USD 1 261 721 thousand). In connection with this non-compliance the above loans were reclassified into short-term loans and borrowings.

In 2012, the Group successfully refinanced the ING Bank N.V. loan and, thereby, could settle the non-compliance with the financial covenants set by the loan agreement with this bank.

Also, in March 2012, the Group signed a supplement agreement with VTB Bank (Deutschland) AG in accordance with which the equity ratio under the loan agreements with this bank has been decreased. As a result, the Group became in compliance with all covenants under the loan agreements with this Bank.

34 Risk Management Policy

Risk management is essential for the Group. The main risks inherent to the Group's operations include credit risk, liquidity risk, interest rate risk, foreign exchange risk and other price risks. A description of the Group's risk management policies in relation to these risks is provided below.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group does not hedge its credit risks.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty/customer, or groups of counterparties/customers. Prior to entering into material contracts, the Group undertakes due diligence procedures, which includes checking the financial condition and creditworthiness of the counterparty, its experience, expertise and reputation in the subject area of co-operation. The Group also obtains a legal opinion from its in-house or independent legal counsel regarding the validity and enforceability of contracts and other material documentation in connection with the subject transaction.

The Group's counterparties/customers mainly include buyers or property and banks. The Group has developed additional procedures to mitigate credit risk on each category.

Contractors: The Group seeks additional credit risk mitigation instruments, including safety deposits, work completion guarantees issued by reliable banks, and attracts professional advisors for providing quality control and technical supervision.

Property buyers: As a rule prepayment is required from each potential buyer.

Banks and financial institutions: the Group undertakes due diligence procedure with regard to banks and financial institutions, which are service providers for the Group, to ensure their creditworthiness. The Investment Committee establishes limits for aggregate credit exposure to banks and financial institutions. Such limits are subject to quarterly review. The Group maintains accounts with several banks to ensure the flexibility of its risk management policy implementation

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets. The maximum level of credit risk as of the reporting date was as follows:

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Non-current assets		
Investments held to maturity (Note 9)	9 523	-
Current assets		
Cash and cash equivalents (Note 13)	21 471	12 106
Financial assets within receivables (Note 11)	18 535	30 740
Loans issued to third parties (Note 12)	8 867	-
Total maximum exposure to credit risk	**58 396**	**42 846**

At 31 December 2011, the Group had three counterparties (2010: three counterparties), with aggregate receivables of USD 13 908 thousand (2010: USD 24 260 thousand) or 75% of the total trade receivables, receivables under construction contracts and other receivables (2010: 79%).
The Group has deposits with two banks (2010: also two banks) which creates a certain level of credit risk concentration. The Group monitors credit risk concentration by placing deposits with reliable credit institutions internationally rated not below B+.

34 Risk Management Policy (Continued)

Market risk

The group is exposed to market risks arising from open positions on a) currency and b) interest-bearing assets and liabilities. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The impact of market risk presented below is based on a change in one factor with all other variables held constant. This can hardly occur in practice, and changes in several factors can correlate, e.g., a change in interest rates and currency rates.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group is exposed to currency risk with regard to revenue, purchases and borrowings denominated in currencies other than functional currencies of the Group's subsidiaries. The majority of these transactions are denominated in US dollars and Canadian dollars (CAD).

The Group's management monitors currency rate fluctuations on a permanent basis and takes necessary measures to mitigate this risk. In the context of the weakening of RR/USD and CAD/USD exchange rates, the Group maintains part of its cash in foreign currencies, namely US dollars. In addition, initially, prices for the Group's products are set in notional units linked to the US dollar exchange rate – stated by Central Bank of Russian Federation. In such a way the Group implicitly has opportunity to decrease currency risks.

Financial instruments by currency

(in thousands of US dollars)	**USD**	**RUB**	**CAD**	**Total at 31 December 2011**
Financial assets				
Investments held to maturity (Note 9)	-	9 523	-	9 523
Cash and cash equivalents (Note 13)	607	19 675	1 193	21 475
Financial assets within receivables (Note 11)	-	16 374	2 161	18 535
Loans issued (Note 12)	6 522	2 345	-	8 867
Total financial assets	**7 129**	**47 917**	**3 354**	**58 400**
Financial liabilities				
Financial liabilities within payables (Note 18)	1 155	25 679	3 842	30 676
Loans and borrowings (Notes 17)	260 825	56 530	-	317 355
Total financial liabilities	**261 980**	**82 209**	**3 842**	**348 031**
Net financial position at 31 December 2011	**(254 851)**	**(34 292)**	**(488)**	**(289 631)**

34 Risk Management Policy (Continued)

(in thousands of US dollars)	USD	RUB	CAD	Total at 31 December 2010
Financial assets				
Cash and cash equivalents (Note 13)	5 635	4 692	1 789	12 116
Financial assets within receivables (Note 11)	1 733	27 826	1 181	30 740
Total financial assets	**7 368**	**32 518**	**2 970**	**42 856**
Financial liabilities				
Financial liabilities within payables (Note 18)	1 766	35 424	3 396	40 586
Loans and borrowings (Notes 17)	339 611	5 821	-	345 432
Total financial liabilities	**341 377**	**41 245**	**3 396**	**386 018**
Net financial position 31 December 2010	**(334 009)**	**(8 727)**	**(426)**	**(343 162)**

US dollar strengthening/weakening against Russian Rouble by 10% at 31 December 2011 would have increased/decreased the profit for 2011 by USD 25 531 thousand (2010: USD 33 444 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant and does not take into account the differences on translation to the Group's presentation currency.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates for financial instruments will affect the value of financial instruments with fixed interest rates or future cash flows related to financial instruments with floating interest rates.

The Group's financial liabilities at 31 December 2011 have both fixed and floating interest rates.

The Group’s Treasury function performs analysis of current interest rates on an annual basis and prepares forecasts for the next year. Depending on the forecast, the management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case of changes in the current market fixed or variable rates the management may consider refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rates.

Sensitivity analysis for floating interest rates is not presented as most of the Group’s loans and borrowings are on a fixed rate basis and consequently the risk of fluctuations in floating interest rates is deemed to be insignificant by the Group's management.

Sensitivity analysis of fixed interest rates is not presented as the Group does not have any fair valued assets or liabilities with fixed interest rates. Therefore, changes in interest rates do not affect the Group's profit or loss.

Other price risk

Other price risk arises from possible changes in fair values or future cash flows as a result of changes in market prices (apart from the impact of interest rate and currency risks) for financial instruments. The Group is exposed to this risk with regard to payables to contractors. The policy in relation to this risk stipulates signing construction contracts with contractors on a fixed price basis. Therefore, a sensitivity analysis is not presented as the risk of fluctuation of future cash flows with regard to payables is insignificant as of the reporting date.

34 Risk Management Policy (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group’s liquidity position is carefully monitored and managed. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations in due course.

The Group's management monitors these risks by means of maturity analysis, determining the Group’s strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in financial markets for current liquidity support and cash flow management.

The Group recognises the capital intensive nature and low liquidity of real estate. Therefore, the Group uses its best efforts to fund a significant portion of future cash needs through long-term borrowings and to maintain a high proportion of equity financing. The Group also tries to partially finance the development of its residential projects by receiving advance payments under construction contracts.

The maturity analysis of the Group's financial liabilities as of 31 December 2011 and 2010 is detailed as follows. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

(*in thousands of US dollars)*	Weighted average interest rate	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Contractual amount at 31 December 2011
Financial liabilities							
Financial liabilities within payables	-	16 356	6 002	2 760	4 986	3 362	33 466
Loans and borrowings	11,9	176 578	27 803	8 801	116 491	32 131	361 804
Total financial liabilities		**192 934**	**33 805**	**11 561**	**121 477**	**35 493**	**395 270**

(*in thousands of US dollars)*	Weighted average interest rate	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Contractual amount at 31 December 2010
Financial liabilities							
Financial liabilities within payables	-	17 050	10 615	2 259	10 662	-	40 586
Loans and borrowings	10,1	174 469	-	23 698	150 407	19 599	368 173
Total financial liabilities		**191 519**	**10 615**	**25 957**	**161 069**	**19 599**	**408 759**

The Group's management takes actions to settle short-term debt liabilities. The settlement plan is provided in Note 1.

Management of Capital

The Group manages its capital mainly to ensure that it will be able to continue as a going concern while maximising the return to its equity holders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

34 Risk Management Policy (Continued)

To maintain and regulate the capital structure, the Group may return capital to its equity holders, issue new shares or sell assets to reduce the debt. The amount of capital that the Group managed as at 31 December 2011 was USD 1 018 433 thousand (2010: USD 1 049 612 thousand).

Main sources of finance of the Group are issuing additional shares for shareholders, offering shares in capital markets and attracting borrowed funds from lending and non-banking institutions.

The Group's management reviews the capital structure on a semi-annual basis. As part of this policy, the Group's management evaluates the cost of capital and risks associated with each capital item.

(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Long-term and short-term loans and borrowings (Note 17)	317 355	345 432
Cash and cash equivalents (Note 13)	(21 475)	(12 116)
Net borrowed funds	**295 880**	**333 316**
Equity	**1 018 433**	**1 049 612**
Net debt to equity ratio	**29,05%**	**31,76%**

The Group did not comply with externally imposed capital requirements throughout 2011 and 2010. These requirements were set in the Group's loan agreements under which the Group should maintain the debt to equity ratio below 67% and its equity should not be below a certain fixed level. The Group complied with the requirements to the debt to equity ratio and failed to comply with equity requirements under certain loan agreements (Note 33). Subsequent to the reporting date, the Group reached an agreement on decreasing the minimum equity level and took actions to repay a loan under another loan agreement, which currently enables it to comply with all requirements (Note 36).

35 Financial Instruments: Presentation by Category and Fair Values

Carrying amounts of financial assets and liabilities as of 31 December 2011 and 2010 are as follows:

Financial Assets	**Held-to-maturity investments**		**Loans issued and receivables**	
(in thousands of US dollars)	**31 December 2011**	**31 December 2010**	**31 December 2011**	**31 December 2010**
Non-Current Assets				
Investments held to maturity (Note 9)	9 523	-	-	-
Current assets				
Financial assets within receivables (Note 11)	-	-	18 535	30 740
Loans issued (Note 12)	-	-	8 867	-
Cash and cash equivalents (Note 13)	-	-	21 475	12 116
Total financial assets	**9 523**	**-**	**48 877**	**42 856**

35 Financial Instruments: Presentation by Category and Fair Values (Continued)

Financial Liabilities	**Financial liabilities carried at amortised cost**	
(in thousands of US dollars)	**31 December 2011**	**31 December 2010**
Non-Current Liabilities		
Long-term loans and borrowings (Note 17)	31 070	17 460
Current Liabilities		
Short-term loans and borrowings and accrued interest (Note 17)	286 285	327 972
Financial liabilities within payables (Note 18)	30 676	40 586
Total financial liabilities	**348 031**	**386 018**

Management believes that the fair value of financial assets at 31 December 2011 and 31 December 2010 does not differ significantly from their carrying amounts. In management's assessment the fair value of financial liabilities at 31 December 2011 amounts to USD 343 117 thousand (31 December 2010: USD 386 018 thousand).

36 Events after the Reporting Date

In January 2012, 59 428 treasury shares bought by the Company from its shareholders in the reporting period were redeemed.

In January 2012, the Group signed a loan agreement with JSC ACB Rosbank for obtaining a loan in the amount equivalent to USD 99 900 thousand. Under this loan agreement, this amount should be used for repayment of the loan to ING Bank N.V. Thereby, the Group could remedy non-compliance with covenants with regard to the loan agreement with ING Bank N.V. The repayment schedule for this new loan is from 2-d quarter 2013 up to 2-d quarter 2014.

In January-April 2012 the Group achieved agreements to obtain debt financing in amount USD 158 258 thousand, under pledge of investment real estate and inventory, Also in January 2012, Group prolonged settlement period of one from non bank loans in the amount USD 18 323 thousand to one year.

In March 2012, the Group signed a supplement agreement with VTB Bank (Deutschland) AG in accordance with which the equity ratio under the loan agreements with this bank was decreased. As a result, the Group was in compliance with all covenants under the loan agreements with this bank.

In March 2012, the Company received a notification on increase of the controlling interest of Onexim Holdings Limited up to 63,75% and that Onexim Group Limited has the right to dispose of 83,17% of the Company's share due to indirect ownership.