OJSC LSR Group

Consolidated Interim Financial Statements for the six month period ended 30 June 2010

Contents

ZAO KPMG
Business Centre "Renaissance Plaza",
69-71 Marata St., liter A, St. Petersburg,
191119 Russia

Telephone +7 (812) 313 7300
Fax +7 (812) 313 7301
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors

OJSC LSR Group

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of OJSC LSR Group (the "Company") and its subsidiaries (the "Group") as at 30 June 2010, and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes to the consolidated interim financial statements. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements do not present fairly, in all material respects, the consolidated interim financial position of the Group as at 30 June 2010, and its consolidated interim financial performance and its consolidated interim cash flows for the six month period then ended in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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20 October 2010

		Six months ended 30 June			
		2010	**2009**	**2010**	**2009**
	Note	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**
Revenue		17,716,709	20,584,994	589,229	622,507
Cost of sales		(13,035,116)	(13,225,679)	(433,527)	(399,955)
Gross profit		4,681,593	7,359,315	155,702	222,552
Distribution expenses		(1,039,697)	(1,136,375)	(34,579)	(34,365)
Administrative expenses	7	(1,909,747)	(1,680,688)	(63,515)	(50,825)
Change in fair value of investment property	15, 16	-	(2,134,077)	-	(64,536)
Other income	8	21,908	73,608	729	2,226
Other expenses	8	(25,146)	(77,532)	(836)	(2,345)
Results from operating activities		1,728,911	2,404,251	57,501	72,707
Finance income	10	873,751	279,605	29,060	8,455
Finance costs	10	(3,045,146)	(2,774,165)	(101,277)	(83,893)
Loss before income tax		(442,484)	(90,309)	(14,716)	(2,731)
Income tax expense	11	(170,094)	(97,492)	(5,657)	(2,948)
Loss for the period		(612,578)	(187,801)	(20,373)	(5,679)
Other comprehensive income (loss)					
Foreign currency translation differences for foreign operations		(62,251)	51,204	(55,455)	(71,430)
Total comprehensive loss for the period		(674,829)	(136,597)	(75,828)	(77,109)

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

OJSC LSR Group
Consolidated Interim Statement of Comprehensive Income for the six month period ended 30 June 2010

		Six months ended 30 June			
		2010	**2009**	**2010**	**2009**
	Note	**'000 RUR**	**'000 RUR**	**'000 USD**	**'000 USD**
Loss attributable to:					
Shareholders of the Company		(573,004)	(118,725)	(19,057)	(3,590)
Non-controlling interest		(39,574)	(69,076)	(1,316)	(2,089)
Loss for the period		(612,578)	(187,801)	(20,373)	(5,679)
Total comprehensive income attributable to:					
Shareholders of the Company		(635,255)	(67,521)	(74,512)	(75,020)
Non-controlling interest		(39,574)	(69,076)	(1,316)	(2,089)
Total comprehensive income for the period		(674,829)	(136,597)	(75,828)	(77,109)
Basic and diluted loss per share	24	(5.95)	(1.27)	(0.20)	(0.04)
Ordinary shares		RUR	RUR	USD	USD

These consolidated financial statements were approved by management on 20 September 2010 and were signed on its behalf by:

A.I. Vakhmistrov
Chief Executive Officer

E.V. Tumanova
Chief Financial Officer

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

	Note	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 USD	31 December 2009 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	13	32,317,714	31,843,363	1,035,977	1,052,875
Intangible assets	14	4,722,445	4,472,080	151,383	147,866
Investment property under development	15	422,626	390,564	13,548	12,914
Investment property	16	2,305,727	2,304,827	73,912	76,207
Other investments	17	58,902	49,438	1,888	1,635
Deferred tax assets	18	1,378,578	1,166,230	44,192	38,560
Trade and other receivables	20	1,642,243	1,940,751	52,644	64,169
Restricted cash	22	176,330	396,487	5,652	13,110
Total non-current assets		43,024,565	42,563,740	1,379,196	1,407,336
Current assets					
Other investments	17	4,164,314	123,806	133,492	4,094
Inventories	19	56,213,973	55,125,699	1,801,996	1,822,687
Income tax receivable		255,851	276,813	8,202	9,153
Trade and other receivables	20	9,394,040	9,328,773	301,135	308,448
Cash and cash equivalents	21	3,657,801	2,895,550	117,255	95,739
Restricted cash	22	85,195	35	2,731	1
Total current assets		73,771,174	67,750,676	2,364,811	2,240,122
Total assets		116,795,739	110,314,416	3,744,007	3,647,458

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

	Note	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 USD	31 December 2009 '000 USD
EQUITY AND LIABILITIES					
Equity	23				
Share capital		32,235	32,235	1,164	1,164
Share premium		14,562,700	14,562,700	569,931	569,931
Additional paid in capital		28,608,092	16,796,271	1,041,348	648,506
Foreign currency translation reserve		(26,422)	35,829	(235,862)	(180,407)
Retained earnings		7,372,288	7,945,398	239,947	259,008
Total equity attributable to shareholders of the Company		50,548,893	39,372,433	1,616,528	1,298,202
Non-controlling interest		250,318	248,659	11,892	11,837
Total equity		50,799,211	39,621,092	1,628,420	1,310,039
Non-current liabilities					
Loans and borrowings	25	25,371,888	24,433,473	813,322	807,873
Deferred tax liabilities	18	1,730,160	1,768,021	55,462	58,458
Trade and other payables	27	518	453	16	15
Provisions	26	815	741	26	25
Total non-current liabilities		27,103,381	26,202,688	868,826	866,371
Current liabilities					
Loans and borrowings	25	10,519,510	15,107,418	337,214	499,515
Income tax payable		99,931	633,459	3,205	20,945
Trade and other payables	27	27,962,456	28,183,680	896,365	931,871
Provisions	26	311,250	566,079	9,977	18,717
Total current liabilities		38,893,147	44,490,636	1,246,761	1,471,048
Total liabilities		65,996,528	70,693,324	2,115,587	2,337,419
Total equity and liabilities		116,795,739	110,314,416	3,744,007	3,647,458

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
OPERATING ACTIVITIES				
Loss for the period	(612,578)	(187,801)	(20,373)	(5,679)
Adjustments for:				
Depreciation and amortisation	1,194,416	1,157,236	39,724	34,996
Loss on disposal of property, plant and equipment	25,146	11,582	836	350
Gain on disposal of other assets	(21,054)	-	(700)	-
Gain on disposal of subsidiaries	(854)	-	(29)	-
Change in fair value of investment property	-	2,134,077	-	64,536
Net finance costs	2,171,395	2,494,560	72,217	75,438
Income tax expense	170,094	97,492	5,657	2,948
Operating profit before changes in working capital and provisions	2,926,565	5,707,146	97,332	172,589
(Increase) / decrease in inventories	(1,067,220)	965,578	(35,494)	29,200
Increase in trade and other receivables	(542,447)	(210,197)	(18,041)	(6,357)
Decrease in trade and other payables	(472,101)	(3,446,685)	(15,701)	(104,835)
Decrease in provisions	(254,755)	(136,674)	(8,473)	(4,133)
Cash flows from operations before income taxes and interest paid	590,042	2,859,168	19,623	86,464
Income taxes paid	(941,451)	(770,848)	(31,311)	(23,311)
Interest paid	(1,934,103)	(1,996,545)	(64,325)	(60,377)
Cash flows (utilised by)/ from operating activities	(2,285,512)	91,775	(76,013)	2,776

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
INVESTING ACTIVITIES				
Proceeds from disposal of non-current assets	94,288	408,021	3,136	12,339
Interest received	36,328	41,551	1,208	1,257
Acquisition of property, plant and equipment	(1,696,432)	(3,622,561)	(56,421)	(109,549)
Decrease in restricted cash	134,997	1,461,073	4,490	44,184
Acquisition of intangible assets	(293,315)	(1,153)	(9,755)	(35)
Acquisition of investment property and investment property under development	(32,977)	(199,450)	(1,096)	(6,032)
Loans given	(73,864)	(49,076)	(2,457)	(1,484)
Loans repaid	98,462	32,985	3,275	997
Acquisition of subsidiaries, net of cash acquired (note 6)	-	(2,923,176)	-	(88,399)
Acquisition of non-controlling interest	(28)	(1,923)	(1)	(58)
Proceeds from disposal of assets and liabilities classified as held for sale	29,531	-	982	-
Disposal of non-controlling interest in subsidiaries	-	100	-	3
(Purchase) / disposal of other investments	(4,074,933)	50,648	(135,526)	1,532
Cash flows utilised by investing activities	(5,777,943)	(4,802,961)	(192,165)	(145,245)
FINANCING ACTIVITIES				
Proceeds from borrowings	14,226,954	11,298,158	473,166	341,665
Proceeds from bonds	4,264,649	-	141,835	-
Repayment of borrowings	(19,160,113)	(7,993,283)	(637,235)	(241,723)
Repayment of bonds	(1,972,759)	(795,731)	(65,611)	(24,064)
Payment of finance lease liabilities	(418,293)	(418,434)	(13,912)	(12,654)
Proceeds from secondary public offering	11,891,828	-	395,504	-
Cash flows from financing activities	8,832,266	2,090,710	293,747	63,224
Net increase / (decrease) in cash and cash equivalents	768,811	(2,620,476)	25,569	(79,245)
Cash and cash equivalents at the beginning of the period	2,895,550	3,188,123	95,739	108,511
Effect of exchange rate fluctuations on cash and cash equivalents	(6,560)	63,970	(4,053)	(9,081)
Cash and cash equivalents at the end of the period (note 21)	3,657,801	631,617	117,255	20,185

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

'000 RUR	**Attributable to shareholders of the Company**							
	Share capital	**Share premium**	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	32,235	14,562,700	16,477,226	21,782	3,231,009	34,324,952	686,387	35,011,339
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(118,725)	(118,725)	(69,076)	(187,801)
Other comprehensive income								
Foreign currency translation differences for foreign operations	-	-	-	51,204	-	51,204	-	51,204
Total comprehensive income for the period	-	-	-	51,204	(118,725)	(67,521)	(69,076)	(136,597)
Transactions with owners recorded directly in equity								
Excess of non-controlling interest acquired for entities under common control over consideration paid	-	-	66	-	-	66	(1,766)	(1,700)
Excess of consideration paid over non-controlling interest acquired for entities under common control	-	-	(132)	-	-	(132)	(91)	(223)
Excess of non-controlling interest sold over consideration received for entities under common control	-	-	(46)	-	-	(46)	146	100
Balance at 30 June 2009	32,235	14,562,700	16,477,114	72,986	3,112,284	34,257,319	615,600	34,872,919

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

'000 RUR	**Attributable to shareholders of the Company**							
	Share capital	**Share premium**	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	32,235	14,562,700	16,796,271	35,829	7,945,398	39,372,433	248,659	39,621,092
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(573,004)	(573,004)	(39,574)	(612,578)
Other comprehensive income								
Foreign currency translation differences for foreign operations	-	-	-	(62,251)	-	(62,251)	-	(62,251)
Total comprehensive income for the period				(62,251)	(573,004)	(635,255)	(39,574)	(674,829)
Transactions with owners recorded directly in equity								
Share issued	-	-	11,853,082	-	-	11,853,082	-	11 853 082
Excess of non-controlling interest acquired for entities under common control over consideration paid	-	-	25	-	-	25	(53)	(28)
Adjustment to non-controlling interest	-	-	(41,286)	-	-	(41,286)	41,286	-
Distribution to shareholders	-	-	-	-	(106)	(106)	-	(106)
Balance at 30 June 2010	32,235	14,562,700	28,608,092	(26,422)	7,372,288	50,548,893	250,318	50,799,211

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

'000 USD	**Attributable to shareholders of the Company**							
	Share capital	**Share premium**	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2009	1,164	569,931	638,450	(154,016)	110,397	1,165,926	25,731	1,191,657
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(3,590)	(3,590)	(2,089)	(5,679)
Other comprehensive income								
Foreign currency translation differences for foreign operations	-	-		(71,430)	-	(71,430)	-	(71,430)
Total comprehensive income for the period	-	-		(71,430)	(3,590)	(75,020)	(2,089)	(77,109)
Transactions with owners recorded directly in equity								
Excess of non-controlling interest acquired for entities under common control over consideration paid	-	-	2	-	-	2	(53)	(51)
Excess of consideration paid over non-controlling interest acquired for entities under common control	-	-	(4)	-	-	(4)	(3)	(7)
Excess of non-controlling interest sold over consideration received for entities under common control	-	-	(1)	-	-	(1)	4	3
Balance at 30 June 2009	1,164	569,931	638,447	(225,446)	106,807	1,090,903	23,590	1,114,493

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

'000 USD	**Attributable to shareholders of the Company**						
	Share capital	**Share premium**	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Non-controlling interest**	**Total**
Balance at 1 January 2010	1,164	648,506	(180,407)	259,008	1,298,202	11,837	1,310,039
Total comprehensive income for the period							
Loss for the period	-	-	-	(19,057)	(19,057)	(1,316)	(20,373)
Other comprehensive income							
Foreign currency translation differences for foreign operations	-	-	(55,455)	-	(55,455)	-	(55,455)
Total comprehensive income for the period	-		(55,455)	(19,057)	(74,512)	(1,316)	(75,828)
Transactions with owners recorded directly in equity							
Share issued	-	394,214	-	-	394,214	-	394,214
Excess of non-controlling interest acquired for entities under common control over consideration paid	-	1	-	-	1	(2)	(1)
Adjustment to non-controlling interest	-	(1,373)	-	-	(1,373)	1,373	-
Distribution to shareholders	-	-	-	(4)	(4)		(4)
Balance at 30 June 2010	1,164	1,041,348	(235,862)	239,947	1,616,528	11,892	1,628,420

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 14 to 100.

1 Background

(a) Organisation and operations

OJSC LSR Group (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian limited liability and open and closed joint stock companies as defined in the Civil Code of the Russian Federation, and companies located in other countries. The Company's shares are traded on the London Stock Exchange and Moscow Interbank Currency Exchange.

The Company's registered office is at 36, Kazanskaya Ulitsa, St. Petersburg, 190031, Russia.

The Group's principal activities include real estate development in St. Petersburg, Munich and Moscow, prefabricated panel construction in St. Petersburg and Yekaterinburg, commercial real estate development in St. Petersburg and Moscow, the production of building materials at plants located in Russia (St. Petersburg, Leningrad region and Urals Region), Latvia, Estonia and Ukraine, the extraction and processing of aggregates in different areas of Leningrad region, and the provision of construction services. These products and services are sold mainly in Russia.

The Group's significant subsidiaries are detailed in note 33.

The Group is ultimately controlled (62.22%) by a single individual, Mr. A. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside the Group. In May 2010 the Group completed its public offering of 9,366,383 ordinary shares at USD 41.33 net of issue costs each and placed global depository receipts ("GDR`s") on the London Stock Exchange as well as shares on the Not-for-Profit Partnership Stock Exchange "Russian Trading System" and Closed Joint Stock Company "Moscow Interbank Currency Exchange". Related party transactions are detailed in note 32.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

These consolidated interim financial statements were approved by the Board of Directors on 20 September 2010.

(b) Basis of measurement

The consolidated interim financial statements are prepared on the historical cost basis except for the following material items in the statement of financial position:

- investment properties and investment properties under development are measured at fair value;
- financial investments classified as available-for-sale are stated at fair value.

The carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 may include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which these consolidated interim financial statements are presented. These consolidated interim financial statements are also presented in United States Dollars ("USD") since the management believes that this currency is useful for the users of the consolidated financial statements. All financial information presented has been rounded to the nearest thousand, except if otherwise indicated. The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 12 - revenue recognition;
- Note 13– useful lives of property, plant and equipment;
- Note 14 – impairment;
- Notes 15 and 16 – determination of fair values of investment properties and investment properties under development;
- Note 20 – allowances for trade receivables;
- Note 26 - warranty provision, provision for site restoration and environment restoration; and
- Note 31 – contingencies.

(e) Change in accounting policy

(i) Overview

Starting as of 1 January 2010, the Group has changed its accounting policies in respect of accounting for business combinations.

(ii) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and had has no material impact on earnings per share in the current period.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the statement of comprehensive income.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

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

3 Significant accounting policies

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

Certain comparative amounts have been reclassified to conform to the current years` presentation as follows:

Revenue and expenses from transportation services in Crushed Granite, Sand and Reinforced Concrete business units for the amount of RUR 254,903 thousand / USD 7,709 thousand was presented gross in the Statement of Comprehensive Income.

Management believes that such presentation is more appropriate.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Special purpose entities

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

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their carrying amounts in the financial statements of the entities transferred. If these companies previously have not prepared IFRS financial statements, assets and liabilities are determined in accordance with IFRS1. Any difference between the book value of net assets acquired and consideration paid is recognised as a contribution from, or distribution to, shareholders.

(iv) Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their book values as recognised in the financial statements of the Group. Any difference between the book value of net assets sold and consideration received is recognised as a contribution from, or a distribution to, shareholders.

(v) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised as a contribution from or a distribution to shareholders.

Any difference between the consideration received upon disposal of a minority portion of the Group's interest in a subsidiary, and the carrying amount of that portion of the Group's interest in the subsidiary, including attributable goodwill, is recognised as a distribution to, or a contribution from, shareholders.

(vi) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements.

(b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in foreign currency translated at the exchange rate at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUR at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUR at the weighted average exchange rate for the period which approximates the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 January 2005, the Group’s date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the statement of comprehensive income as part of profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(iii) Translation to presentation currency

The assets and liabilities of Group enterprises are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at rates approximating exchange rates at the dates of the transactions. Translation differences are recognised directly in other comprehensive income as the foreign currency translation reserve.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables comprise trade and other receivables and loans issued.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised in other comprehensive income and presented within equity in the additional paid-in capital. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of comprehensive income.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses

(ii) Non-derivative financial liabilities

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

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares

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

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit of the transaction is transferred to/from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in the statement of comprehensive income. When revalued assets are sold, the amounts included in the revaluation reserve within the additional paid-in capital are transferred to retained earnings.

(ii) Reclassification of owner occupied property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain or loss on remeasurement is recognised in equity.

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

- Buildings 20 to 50 years
- Machinery and equipment 5 to 29 years
- Transportation equipment 8 to 20 years
- Other fixed assets 5 to 20 years.

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

(f) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and is included in intangible assets.

Acquisitions prior to 1 January 2005

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2005. The Group did not prepare consolidated financial statements under Russian GAAP. In respect of acquisitions prior to 1 January 2005, goodwill therefore represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions between 1 January 2005 and 1 January 2010

For acquisitions between 1 January 2005 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the statement of comprehensive income. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of the acquisition.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the statement of other comprehensive income as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Other intangible assets

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

(v) Subsequent expenditure

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

(vi) Amortisation

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

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefit s embodied in the asset.

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

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised in the Group’s statement of financial position. Acquired rights to lease of land for development are recognised at cost in inventory or investment property under development.

(h) Investment property under development

Investment property under development consists of plots of land, wholly or partly owned by the Group or leased to the Group, on which commercial properties are being, or will be, built. These properties will be leased to third parties on completion.

Investment property under development consists of two components: land and buildings. Land and buildings are measured at fair value with any change therein recognised in the statement of comprehensive income.

In the absence of current prices in an active market, the fair values of are established by considering the aggregate of the estimated cash flows expected to be received from renting out the property less the estimated costs, including developer's profit margin, to complete the individual projects to the stage where they could be marketed. Discount rate that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. In the case when investment property forms part of a larger property unit, it is distinguished on the basis of the area which it occupies in the total area of the property unit. Investment property is measured at fair value with any change therein recognised in the statement of comprehensive income.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see note 3(p) (iii)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income in the statement of financial position.

(l) Impairment

(i) Financial assets

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

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

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the additional paid-in capital in equity, to the statement of comprehensive income. The cumulative loss that is removed from other comprehensive income and recognised in the statement of comprehensive income is the difference between the acquisition cost, net of any principal repayments and amortisation, and the current fair value, less any impairment loss previously recognised in the statement of comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the statement of comprehensive income, then the impairment loss is reversed, with the amount of the reversal recognised in the statement of comprehensive income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties, investment properties under development, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

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

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

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

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

Goodwill that forms part of the carrying amount of an investment in associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(m) Non-current assets held for sale

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

(n) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in the statement of comprehensive income when they are due.

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

(o) Provisions

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

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data.

(ii) Site restoration

In accordance with the Group's environmental policy and applicable statutory requirements, provision is made for the Group's obligation to incur additional costs including costs associated with clean up the surrounding area after finishing the construction of apartment building. The related expense is recognised in the statement of comprehensive income.

(iii) Onerous contracts

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

(p) Revenues

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of flats is recognised when the buyer signs the act of acceptance of the property, following certification by the competent Authorities.

(ii) Services

Revenue from services, rendered by the "Construction" segment, is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Revenue from services, rendered by the "Construction services" segment is recognised in the statement of comprehensive income when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

(iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the statement of comprehensive income in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create as asset related to future contract activity.

The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. An expected loss on a contract is recognised immediately in the statement of comprehensive income.

(iv) Rental income

Rental income from investment property is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(q) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the statement of comprehensive income as incurred.

(r) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in the statement of comprehensive income, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the statement of comprehensive income using the effective interest method.

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

(s) Income tax expense

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(t) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(u) Segment reporting

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

Inter-segment pricing is determined on an arm’s length basis.

(v) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing this consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group’s operations.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Property, plant and equipment

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

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

(b) Investment property and investment property under development

The fair value of investment property and the investment property under development is based on valuations, performed by external independent valuation companies, who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. The valuations are based primarily on comparable rents, discount rates, yields and sales prices from recent market transactions on an arm's lengths basis, using the Discounted Cash Flow technique for investment property under development and market approach for investment property, undertaken according to the requirements of the United Kingdom's Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

(c) Intangible assets

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

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

(d) Inventories

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

(e) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held to maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(f) Trade and other receivables

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

(g) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group has six reportable segments as described below which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately, because they require different technology and marketing strategies. The format of reporting segments is based on Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

(a) Operating segments

The following summary describes the operations in each of the Group's reportable segments:

Real Estate Development business units specialize in the development of elite, mass-market and business class residential real estate, gated communities and commercial real estate

Commercial real estate. Commercial Real Estate business unit owns and operates business centres.

Building materials. The building materials business units are engaged in the production of brick, concrete and reinforced concrete items, ready-mix concrete, aerated concrete blocks, and window blocks and doors.

Aggregates. Aggregates business units are engaged in crushed stone production, land-based and marine-dredged sand extraction.

Construction. Construction business units specialize in panel construction.

Construction services. Construction services business units specialize in providing of tower cranes services, transportation of construction materials and pile driving services.

There are varying levels of integration between the Building Materials, Construction and Real Estate Development reportable segments. This integration includes transfers of raw materials and services, respectively. Inter-segment pricing is determined on an arm's length basis. The accounting policies of the reportable segments are the same as described in notes 2 and 3.

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

(b) Geographical information

The operations of the Group are conducted and managed primarily in St. Petersburg, in Moscow and in Yekaterinburg, where the production facilities and sales offices of the Group are located. The Group also has operations in Germany, Latvia, Ukraine and Estonia, the volume of which is not significant to total operations of the Group. Accordingly, no geographical segmental information is presented.

(c) Major customer

Revenues from one customer of the Group's construction segment represents approximately RUR 2,652,848 thousand/ USD 88,229 thousand (six months ended 30 June 2009: RUR 2,732,936 thousand / USD 82,646 thousand) of the Group's total revenues.

(i) Operating segments

Six months ended 30 June 2010 ’000 RUR	**Real estate development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Total**
Revenue from external customers	5,961,628	70,924	4,102,689	1,153,426	5,192,039	507,109	9,390	16,997,205
Inter-segment revenue	25,406	-	567,949	259,290	355,954	181,317	-	1,389,916
Total segment revenue	5,987,034	70,924	4,670,638	1,412,716	5,547,993	688,426	9,390	18,387,121
Segment result	1,637,581	13,639	(489,578)	66,801	850,516	11,904	-	2,090,863
Depreciation/amortisation	15,646	562	441,728	235,361	301,353	145,945	53,821	1,194,416
Capital expenditure	33,773	1,282	1,316,373	312,682	127,578	5,844	21,290	1,818,822

Six months ended 30 June 2009 ’000 RUR	**Real estate development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Total**
Revenue from external customers	9,388,572	76,764	4,263,207	1,336,685	4,146,649	758,887	10,401	19,981,165
Inter-segment revenue	20,275	1	259,483	212,399	431,616	180,531	-	1,104,305
Total segment revenue	9,408,847	76,765	4,522,690	1,549,084	4,578,265	939,418	10,401	21,085,470
Segment result	1,555,684	42,087	(346,899)	378,290	560,808	179,744	-	2,369,714
Depreciation/amortisation	18,422	772	431,191	237,016	264,437	152,364	53,034	1,157,236
Capital expenditure	2,257	165	3,563,521	37,911	165,837	9,005	2,753	3,781,449

Six months ended 30 June 2010 ’000 USD	**Real estate development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Total**
Revenue from external customers	198,274	2,359	136,449	38,361	172,679	16,866	312	565,300
Inter-segment revenue	845	-	18,889	8,624	11,838	6,030	-	46,226
Total revenue	199,119	2,359	155,338	46,985	184,517	22,896	312	611,526
Segment result	54,463	454	(16,283)	2,222	28,287	396	-	69,539
Depreciation/amortisation	520	19	14,691	7,828	10,023	4,854	1,791	39,726
Capital expenditure	1,124	43	43,781	10,399	4,243	194	708	60,492

Six months ended 30 June 2009 ’000 USD	**Real estate development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Total**
Revenue from external customers	283,918	2,321	128,923	40,422	125,398	22,949	315	604,246
Inter-segment revenue	613	-	7,847	6,423	13,052	5,459	-	33,394
Total revenue	284,531	2,321	136,770	46,845	138,450	28,408	315	637,640
Segment result	47,045	1,273	(10,491)	11,440	16,960	5,436	-	71,663
Depreciation/amortisation	557	23	13,040	7,168	7 997	4,608	1,604	34,997
Capital expenditure	68	5	107,764	1,146	5 015	272	83	114,353

At the end of 30 June 2010 '000 RUR	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Total
Segment assets	69,016,299	2,555,451	29,879,147	5,054,984	8,294,939	2,826,655	-	117,627,475
Segment liabilities	22,284,197	62,809	4,260,856	843,584	3,442,011	276,762	-	31,170,219

Year ended 31 December 2009 '000 RUR	Real Estate Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Total
Segment assets	68,676,251	2,574,875	26,701,592	4,385,653	8,962,526	2,982,238	-	114,283,135
Segment liabilities	24,178,899	290,101	3,228,434	603,646	3,607,412	247,561	-	32,156,053

At the end of 30 June 2010 '000 USD	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Total
Segment assets	2,212,387	81,918	957,806	162,043	265,903	90,611	-	3,770,668
Segment liabilities	714,342	2,013	136,586	27,042	110,337	8,872	-	999,192

Year ended 31 December 2009 '000 USD	Real Estate Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Total
Segment assets	2,270,725	85,136	882,867	145,008	296,339	98,605	-	3,778,680
Segment liabilities	799,456	9,592	106,746	19,959	119,276	8,185	-	1,063,214

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Revenue	**’000 RUR**		**’000 USD**	
	Six months ended 30 June 2010	**Six months ended 30 June 2009**	**Six months ended 30 June 2010**	**Six months ended 30 June 2009**
Total revenue for reportable segments	18,387,121	21,085,470	611,526	637,640
Other revenue	122,532	110,114	4,075	3,331
Transportation revenue	596,972	493,715	19,854	14,930
Elimination of intersegment revenue	(1,389,916)	(1,104,305)	(46,226)	(33,394)
Consolidated revenue	17,716,709	20,584,994	589,229	622,507

Loss for the period	**’000 RUR**		**’000 USD**	
	Six months ended 30 June 2010	**Six months ended 30 June 2009**	**Six months ended 30 June 2010**	**Six months ended 30 June 2009**
Total segment result	2,090,863	2,369,714	69,539	71,663
Other result	77,507	270,839	2,578	8,190
Unallocated expenses and income, net	(439,459)	(236,302)	(14,616)	(7,146)
Finance income	873,751	279,605	29,060	8,455
Finance costs	(3,045,146)	(2,774,165)	(101,277)	(83,893)
Income tax expense/(benefit)	(170,094)	(97,492)	(5,657)	(2,948)
Loss for the period	(612,578)	(187,801)	(20,373)	(5,679)

Assets	**’000 RUR**		**’000 USD**	
	At the end of 30 June 2010	**Year ended 31 December 2009**	**At the end of 30 June 2010**	**Year ended 31 December 2009**
Total assets for reportable segments	117,627,475	114,283,135	3,770,668	3,778,680
Elimination of intersegment assets	(11,394,758)	(11,850,816)	(365,270)	(391,837)
Unallocated assets	10,563,022	7,882,097	338,609	260,615
Total assets	116,795,739	110,314,416	3,744,007	3,647,458

Liabilities	**'000 RUR**		**'000 USD**	
	At the end of 30 June 2010	**Year ended 31 December 2009**	**At the end of 30 June 2010**	**Year ended 31 December 2009**
Total liabilities for reportable segments	31,170,219	32,156,053	999,192	1,063,214
Elimination of intersegment liabilities	(15,121,434)	(3,213,349)	(484,733)	(106,246)
Unallocated liabilities	49,947,743	41,750,620	1,601,128	1,380,451
Total liabilities	65,996,528	70,693,324	2,115,587	2,337,419

Other material items	**'000 RUR**		**'000 USD**	
	Six months ended 30 June 2010	**Six months ended 30 June 2009**	**Six months ended 30 June 2010**	**Six months ended 30 June 2009**
Capital expenditure	1,818,822	3,781,449	60,492	114,353
Elimination of intersegment purchases	(1)	(150,092)	-	(4,538)
Consolidated capital expenditure	1,818,821	3,631,357	60,492	109,815

6 Acquisitions and disposals of subsidiaries and non-controlling interests

(a) Acquisition of subsidiaries

There were no acquisitions of subsidiaries during the six months 30 June 2010 and 2009.

During the six months ended 30 June 2009 the Group has repaid outstanding payables for the shares in the subsidiaries acquired before 1 January 2009 in the amount of RUR 2,923,176 thousand/ USD 88,399 thousand, which was disclosed within investing activities in the consolidated interim statement of cash flows.

(b) Changes in non-controlling interests

During the six months ended 30 June 2010 the Group acquired an additional interest in a number of subsidiaries from companies controlled by the Group ultimate controlling party and third parties. The Group recognised a decrease in non-controlling interest of RUR 53 thousand / USD 2 thousand. Contribution from shareholders of RUR 25 thousand / USD 1 was recognised directly in equity.

As at 30 June 2010 the Group recalculated net assets attributable to non-controlling interest and recognised the adjustment of RUR 41,286 thousand / USD 1,373 thousand directly in equity as it has no material impact on the financial statements.

During the six months ended 30 June 2009 the Group acquired an additional interest in a number of subsidiaries from companies controlled by the Group ultimate controlling party and third parties. The Group recognised a decrease in non-controlling interest of RUR 1,857 thousand / USD 56 thousand. Contribution from shareholders of RUR 66 thousand / USD 2 thousand and distribution to shareholders of RUR 132 thousand / USD 4 thousand was recognised directly in equity.

During the six months ended 30 June 2009 the Group disposed of non-controlling holdings in a number of its subsidiaries to companies controlled by the Group ultimate controlling party and third parties. The Group recognised an increase in minority interest of RUR 146 thousand / USD 4 thousand. Distribution to shareholders of RUR 46 thousand / USD 1 thousand was recognised directly in equity.

(c) Disposal of subsidiaries

In June 2010 one of the Group subsidiaries disposed its share in newly established entity OOO “Sluzhba 071” to an individual for a consideration of RUR 860 thousand / USD 29 thousand. The net gain on the disposal of RUR 854 thousand / USD 29 thousand was recognised as gain on disposal of subsidiary.

During the six months ended 30 June 2009 the Group received advances from related parties for sale of shares of Joint-Stock Company “Golden Kazanskaya” and ZAO “Kazanskaya, 36” in the amount of RUR 300,000 thousand / USD 9,588 thousand and RUR 540,000 thousand / USD 17,258 thousand respectively by returning of promissory notes. Sale of shares of Joint-Stock Company “Golden Kazanskaya” occurred in September 2009. The net gain on the disposal of RUR 61,915 thousand / USD 1,952 thousand was recognised as contribution from shareholders.

The disposal of the subsidiary had the following effect on the Group’s assets and liabilities at the date of disposal:

Carrying amounts at the date of disposal	**’000 RUR**	**’000 USD**
Non-current assets		
Property, plant and equipment	216,666	6,830
Deferred tax assets	47	1
Current assets		
Trade and other receivables	39,324	1,241
Income tax receivable	1,137	36
Cash and cash equivalents	3,566	112
Non-current liabilities		
Deferred tax liability	(20,640)	(651)
Current liabilities		
Trade and other payables	(2,015)	(64)
Net identifiable assets, liabilities and contingent liabilities disposed	238,085	7,505
Excess of consideration received for entities under common control over book values of net assets sold	61,915	1,952
Consideration received	300,000	9,457
Cash disposed of	(3,566)	(112)
Net cash inflow	296,434	9,345

In November 2009 the Group disposed of ZAO “Kikerino-Elektrik”, previously disclosed as held for sale, to a third party. The subsidiary contributed a loss of RUR 6,644 thousand / USD 210 thousand to the net profit for the year including the net gain on the disposal of RUR 3,483 thousand/ USD 110 thousand.

7 Administrative expenses

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Wages and salaries	1,106,349	978,306	36,795	29,585
Services	385,339	281,484	12,815	8,512
Materials	41,449	37,987	1,379	1,149
Depreciation and amortisation	82,924	73,497	2,758	2,223
Taxes other than profit tax	105,394	121,782	3,505	3,683
Social expenditure	58,148	50,109	1,934	1,515
Insurance	18,862	15,651	627	473
Other administrative expenses	111,282	121,872	3,702	3,685
	1,909,747	1,680,688	63,515	50,825

8 Other income and expenses

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Other income:				
Gain on disposal of subsidiaries	854	-	29	-
Gain on disposal of other assets	21,054	73,608	700	2,226
Total other income	21,908	73,608	729	2,226
Other expenses:				
Loss on disposal of property, plant and equipment	(25,146)	(11,582)	(836)	(350)
Loss on disposal of other assets	-	(65,950)	-	(1,995)
Total other expenses	(25,146)	(77,532)	(836)	(2,345)
Net other expenses	(3,238)	(3,924)	(107)	(119)

9 Total personnel costs

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Wages and salaries:				
Cost of sales	2,312,067	2,154,543	76,896	65,155
Administrative expenses	1,106,349	978,306	36,795	29,585
Distribution expenses	185,974	168,412	6,185	5,093
	3,604,390	3,301,261	119,876	99,833

10 Finance income and finance costs

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Recognised in profit or loss				
Finance income				
Foreign exchange gain	780,603	72,430	25,962	2,190
Interest income	36,328	41,551	1,208	1,257
Unwind of discount	36,620	-	1,218	-
Repurchase of own bonds	-	162,038	-	4,900
Resale of own bonds	10,974	-	365	-
Income from sale of available-for-sale investments	-	2,286	-	69
Other finance income	9,226	1,300	307	39
	873,751	279,605	29,060	8,455
Finance costs				
Interest expense	(2,184,181)	(2,021,122)	(72,642)	(61,121)
Unwind of discount on payables for shares of the subsidiaries acquired	-	(247,793)	-	(7,493)
Foreign exchange loss	(844,513)	(476,422)	(28,087)	(14,407)
Loss from sale of available-for-sale investments	(848)	(3,855)	(28)	(117)
Non-controlling interest in limited liability subsidiaries	(864)	(1,106)	(29)	(33)
Other finance costs	(14,740)	(23,867)	(491)	(722)
	(3,045,146)	(2,774,165)	(101,277)	(83,893)
Net finance costs recognised in profit or loss	(2,171,395)	(2,494,560)	(72,217)	(75,438)

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Recognised in other comprehensive income				
Finance income / (costs)				
Foreign currency translation differences for foreign operations	(62,251)	51,204	(55,455)	(71,430)
Finance income / (costs) recognised in other comprehensive income, net of tax	(62,251)	51,204	(55,455)	(71,430)
Attributable to:				
Equity holders of the Company	(62,251)	51,204	(55,455)	(71,430)

11 Income tax expense

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Current tax expense				
Current period	428,885	792,338	14,265	23,961
Deferred tax expense				
Origination and reversal of temporary differences	(258,791)	(694,846)	(8,608)	(21,013)
Income tax expense	170,094	97,492	5,657	2,948

The majority of the Group activities are taxed in Russia at a corporate income tax rate of 20% (six months 2009: 20%).

Reconciliation of effective tax rate:

	Six months ended 30 June							
	2010 ’000 RUR	**%**	**2009 ’000 RUR**	**%**	**2010 ’000 USD**	**%**	**2009 ’000 USD**	**%**
Loss for the period	(612,578)		(187,801)		(20,373)		(5,679)	
Income tax expense	170,094		97,492		5,657		2,948	
Loss before income tax	(442,484)	100	(90,309)	100	(14,716)	100	(2,731)	100
Income tax at applicable tax rate	(88,497)	20	(18,062)	20	(2,943)	20	(546)	20
Tax incentives	(31,641)	7	(16,100)	18	(1,052)	7	(487)	18
Write-down of deferred tax assets	134,815	(30)	-	-	4,484	(30)	-	-
Non-deductible items	210,444	(47)	182,748	(202)	6,998	(47)	5,526	(202)
Non-taxable items	(55,027)	12	(51,094)	57	(1,830)	12	(1,545)	57
	170,094	(38)	97,492	(107)	5,657	(38)	2,948	(107)

As at 30 June 2010 the Group reassessed its estimation of deferred tax assets on unused tax losses recoverability, that was previously recognised as at 31 December 2009 in the amount of RUR 134,815 thousand / USD 4,484 thousand. The Group estimates that as at 31 June 2010 it is not probable that taxable profit will be available against which those unused tax losses can be utilized and hence amount was written off.

12 Construction contracts

The revenue and gross margin recognised on construction contracts during the periods are presented below:

	Six months ended 30 June			
	2010 ’000 RUR	**2009 ’000 RUR**	**2010 ’000 USD**	**2009 ’000 USD**
Contract revenue	4,869,744	3,714,403	161,960	112,327
Contract costs	(3,847,020)	(2,722,757)	(127,946)	(82,339)
Gross profit	1,022,724	991,646	34,014	29,988

13 Property, plant and equipment

'000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2009	11,229,161	10,576,398	2,817,662	652,302	8,099,076	33,374,599
Additions	69,893	145,636	4,806	16,070	3,394,952	3,631,357
Disposals	(21,112)	(32,214)	(47,564)	(4,493)	(366,767)	(472,150)
Transfers into assets held for sale	(226,600)	(2,673)	-	(199)	-	(229,472)
Transfers and reclassifications	314,537	422,517	7,308	(10,029)	(734,333)	-
Effect of movements in exchange rates	59,959	616	1,131	1,336	23,503	86,545
At 30 June 2009	11,425,838	11,110,280	2,783,343	654,987	10,416,431	36,390,879
At 1 January 2010	11,645,990	11,727,266	2,823,611	673,978	12,248,714	39,119,559
Additions	322,867	59,589	49,301	19,747	1,367,317	1,818,821
Disposals	(38,214)	(65,104)	(17,903)	(9,137)	(54,228)	(184,586)
Transfers and reclassifications	238,803	64,338	28,456	3,590	(335,187)	-
Effect of movements in exchange rates	(37,474)	(41,929)	995	(1,914)	(1,195)	(81,517)
At 30 June 2010	12,131,972	11,744,160	2,884,460	686,264	13,225,421	40,672,277
Depreciation and impairment losses						
At 1 January 2009	(1,173,776)	(2,589,574)	(993,260)	(303,989)	-	(5,060,599)
Depreciation charge	(286,954)	(600,924)	(219,793)	(49,064)	-	(1,156,735)
Disposals	7,027	19,588	24,523	2,840	-	53,978
Transfers into assets held for sale	11,335	1,490	-	28	-	12,853
Transfers and reclassifications	337	(5,982)	(1,542)	7,187	-	-
Effect of movements in exchange rates	(3,568)	(9,268)	(96)	(747)	-	(13,679)
At 30 June 2009	(1,445,599)	(3,184,670)	(1,190,168)	(343,745)	-	(6,164,182)
At 1 January 2010	(1,735 ,494)	(3,768,555)	(1,394,650)	(377,497)	-	(7,276,196)
Depreciation charge	(294,099)	(629,230)	(215,094)	(43,985)	-	(1,182,408)
Disposals	9,911	44,460	15,453	3,052	-	72,876
Transfers and reclassifications	-	1,063	-	(1,063)	-	-
Effect of movements in exchange rates	7,622	22,243	(299)	1,599	-	31 165
At 30 June 2010	(2,012,060)	(4,330,019)	(1,594,590)	(417,894)	-	(8,354,563)
Net book value						
At 1 January 2009	10,055,385	7,986,824	1,824,402	348,313	8,099,076	28,314,000
At 30 June 2009	9,980,239	7,925,610	1,593,175	311,242	10,416,431	30,226,697
At 1 January 2010	9,910,496	7,958,711	1,428,961	296,481	12,248,714	31,843,363
At 30 June 2010	10,119,912	7,414,141	1,289,870	268,370	13,225,421	32,317,714

'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2009	382,199	359,981	95,903	22,202	275,664	1,135,949
Additions	2,114	4,404	145	486	102,666	109,815
Disposals	(638)	(974)	(1,438)	(136)	(11,091)	(14,277)
Transfers into assets held for sale	(6,853)	(81)	-	(6)	-	(6,940)
Transfers and reclassifications	9,512	12,777	221	(303)	(22,207)	-
Effect of movements in exchange rates	(21,179)	(21,037)	(5,879)	(1,310)	(12,137)	(61,542)
At 30 June 2009	365,155	355,070	88,952	20,933	332,895	1,163,005
At 1 January 2010	385,065	387,753	93,360	22,285	404,994	1,293,457
Additions	10,738	1,982	1,640	657	45,475	60,492
Disposals	(1,271)	(2,165)	(595)	(304)	(1,804)	(6,139)
Transfers and reclassifications	7,942	2,140	946	119	(11,147)	-
Effect of movements in exchange rates	(13,571)	(13,239)	(2,887)	(758)	(13,564)	(44,019)
At 30 June 2010	388,903	376,471	92,464	21,999	423,954	1,303,791
Depreciation and impairment losses						
At 1 January 2009	(39,951)	(88,140)	(33,807)	(10,347)	-	(172,245)
Depreciation charge	(8,678)	(18,172)	(6,647)	(1,484)	-	(34,981)
Disposals	213	592	742	86	-	1,633
Transfers into assets held for sale	343	45	-	1	-	389
Transfers and reclassifications	10	(181)	(47)	218	-	-
Effect of movements in exchange rates	1,864	4,078	1,723	539	-	8,204
At 30 June 2009	(46,199)	(101,778)	(38,036)	(10,987)	-	(197,000)
At 1 January 2010	(57,383)	(124,604)	(46,113)	(12,482)	-	(240,582)
Depreciation charge	(9,781)	(20,927)	(7,154)	(1,463)	-	(39,325)
Disposals	330	1,479	514	102	-	2,425
Transfers and reclassifications	-	35	-	(35)	-	-
Effect of movements in exchange rates	2,335	5,214	1,637	482	-	9,668
At 30 June 2010	(64,499)	(138,803)	(51,116)	(13,396)	-	(267,814)
Net book value						
At 1 January 2009	342,248	271,841	62,096	11,855	275,664	963,704
At 30 June 2009	318,956	253,292	50,916	9,946	332,895	966,005
At 1 January 2010	327,682	263,149	47,247	9,803	404,994	1,052,875
At 30 June 2010	324,404	237,668	41,348	8,603	423,954	1,035,977

Depreciation expense of RUR 1,054,831 thousand/USD 35,082 thousand has been charged in cost of goods sold (30 June 2009: RUR 1,030,505 thousand/USD 31,163 thousand), RUR 23,778 thousand/USD 791 thousand in distribution expenses (30 June 2009: RUR 18,784 thousand/USD 568 thousand) and RUR 74,844 thousand/USD 2,489 thousand in administrative expenses (30 June 2009: RUR 68,802 thousand/USD 2,081 thousand).

(a) Impairment

Property, plant and equipment were tested for impairment; the basis for impairment is disclosed in note 14.

(b) Security

Properties with a carrying amount of RUR 8,050,975 thousand /USD 258,082 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 7,732,231 thousand /USD 255,660 thousand) (refer to note 25).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2010 the net book value of leased plant and machinery was RUR 1,771,735 thousand/ USD 56,795 thousand (31 December 2009: RUR 2,186,397 thousand/ USD 72,291 thousand).

14 Intangible assets

'000 RUR	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2009	4,326,912	724,399	5,051,311
Additions	-	1,153	1,153
Disposals	-	(2,134)	(2,134)
Effects of movement in exchange rates	-	298	298
Balance at 30 June 2009	4,326,912	723,716	5,050,628
Balance at 1 January 2010	4,326,912	737,883	5,064,795
Additions	-	293,315	293,315
Disposals	-	(16,435)	(16,435)
Effects of movement in exchange rates	-	(581)	(581)
Balance 30 June 2010	4,326,912	1,014,182	5,341,094
Amortisation and impairment losses			
Balance at 1 January 2009	(390,986)	(44,837)	(435,823)
Amortisation charge	-	(39,391)	(39,391)
Disposals	-	703	703
Effects of movement in exchange rates	-	(65)	(65)
Balance at 30 June 2009	(390,986)	(83,590)	(474,576)
Balance at 1 January 2010	(470,079)	(122,636)	(592,715)
Amortisation charge	-	(34,961)	(34,961)
Disposals	-	8,711	8,711
Effects of movement in exchange rates	-	316	316
Balance 30 June 2010	(470,079)	(148,570)	(618,649)
Net book value			
At 1 January 2009	3,935,926	679,562	4,615,488
At 30 June 2009	3,935,926	640,126	4,576,052
At 1 January 2010	3,856,833	615,247	4,472,080
At 30 June 2010	3,856,833	865,612	4,722,445

'000 USD	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2009	147,271	24,656	171,927
Additions	-	35	35
Disposals	-	(65)	(65)
Effects of movement in exchange rates	(8,989)	(1,497)	(10,486)
Balance at 30 June 2009	138,282	23,129	161,411
Balance at 1 January 2010	143,066	24,398	167,464
Additions	-	9,755	9,755
Disposals	-	(547)	(547)
Effect of movements in exchange rates	(4,362)	(1,095)	(5,457)
Balance 30 June 2010	138,704	32,511	171,215
Amortisation and impairment losses			
Balance at 1 January 2009	(13,308)	(1,525)	(14,833)
Amortisation charge	-	(1,191)	(1,191)
Disposals	-	21	21
Effects of movement in exchange rates	813	24	837
Balance at 30 June 2009	(12,495)	(2,671)	(15,166)
Balance at 1 January 2010	(15,543)	(4,055)	(19,598)
Amortisation charge	-	(1,163)	(1,163)
Disposals	-	290	290
Effect of movements in exchange rates	474	165	639
Balance 30 June 2010	(15,069)	(4,763)	(19,832)
Net book value			
At 1 January 2009	133,963	23,131	157,094
At 30 June 2009	125,787	20,458	146,245
At 1 January 2010	127,523	20,343	147,866
At 30 June 2010	123,635	27,748	151,383

Other intangible assets mainly include licences for extraction of sand and crushed granite in Saint-Petersburg and Ural regions.

Intangible assets classified within other, with a carrying amount of RUR 1,569 thousand / USD 50 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 2,443 thousand /USD 81 thousand) (refer to note 25).

(a) Impairment testing of goodwill and property, plant and equipment

Goodwill is allocated to the Group's entities or business units when appropriate. For the purpose of impairment testing these units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each entity or business unit (BU) and the related impairment losses recognised are as follows:

		Allocated goodwill		Accumulated impairment losses		Net book value as at 30 June 2010	
Entity / Business Unit	**Business Segment**	**'000 RUR**	**'000 USD**	**'000 RUR**	**'000 USD**	**'000 RUR**	**'000 USD**
OAO "Zavod ZhBI-6"	Building Materials	254,172	8,148	(188,583)	(6,045)	65,589	2,103
Aeroc International AS	Building Materials	245,952	7,884	-	-	245,952	7,884
JSC "Aeroc Obuchow"	Building Materials	818,546	26,239	(164,594)	(5,276)	653,952	20,963
LSR Europe GmbH	Real Estate Development	50,093	1,606	-	-	50,093	1,606
OOO "Cement"	Building Materials	621,485	19,922	-	-	621,485	19,922
OAO "Parkon"	Building Materials	17,354	556	-	-	17,354	556
JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG" (formerly OAO SKV SPb)	Real Estate Development	22,451	720	-	-	22,451	720
BU Crushed Granite Ural	Aggregates	128,269	4,112	(116,902)	(3,748)	11,367	364
BU Construction Ural	Construction	736,429	23,607	-	-	736,429	23,607
BU Development Ural	Real Estate Development	1,276,844	40,931	-	-	1,276,844	40,931
BU Crushed Granite Saint-Petersburg	Aggregates	155,317	4,979	-	-	155,317	4,979
		4,326,912	138,704	(470,079)	(15,069)	3,856,833	123,635

Last impairment review was conducted by the Group as of 31 December 2009. The following key assumptions were used in determining the recoverable amounts of the respective companies as of 31 December 2009:

Building Materials, Aggregates and Construction services segments:

- Cash flows were projected based on budgeted operating results for 2010 and four - eleven years business plans;
- Plan for 2010 was prepared considering the expected recession in construction industry in 2009;
- The recovery of the market is assumed to start in 2010-2011, and the plants are expected to reach the levels of 2008 in 2011-2012;
- Cash flows for further years were extrapolated assuming 2% further growth in production;
- Discount rate of 19.74% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 38.81% at a market interest rate of 13.02% p.a. and an industry average beta-coefficient.

Construction:

- Cash flows were projected based on budgeted operating results for 2010 and four years business plans;
- Plans for 2010-2011 were prepared based on the actual contract portfolio and the actual prices, while consecutive years were planned with assumption of market recovery in 2010-2011;
- Cash flows for further years were assuming 2% further growth in production;
- Discount rate of 15.43% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 39.92% at a market interest rate of 13.02% p.a. and an industry average beta-coefficient.

Real Estate Development and Commercial Real Estate:

- Cash flows were determined for the existing and planned investment projects up to the end of their construction and sale.
- Discount rate of 15.43% was applied in determining the recoverable amount of the assets. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 39.92% at a market interest rate of 13.02% p.a. and an industry average beta-coefficient.

The values assigned to the key assumptions represent management’s assessment of future trends in the construction, development and construction materials production industry and are based on both external sources and internal sources.

The Group did not performed an impairment review as of 30 June 2010 as there were no indicators of impairment. Goodwill will be tested for impairment as of 31 December 2010.

15 Investment property under development

	Fair value of investment projects			
	2010	**2009**	**2010**	**2009**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Cost / Fair value				
At 1 January	390,564	5,488,448	12,914	186,806
Change in fair value recognised directly in the statement of comprehensive income	-	(2,134,077)	-	(64,536)
Reclassification into inventories	-	(1,050,992)	-	(31,783)
Additions	32,062	199,450	1,066	6,032
Effect of movements in exchange rates	-	-	(432)	(16,532)
At 30 June	422,626	2,502,829	13,548	79,987

Investment property under development consists of plots of land, wholly or partly owned, by the Group, on which commercial properties are being, or will be, built. These properties will be leased to third parties on completion.

Investment property under development consists of two components: land and costs capitalised in connection with the development of the site. Costs capitalised relate to development carried out on sites owned or partly owned by the Group. Both land and costs capitalised are measured at fair value with any change therein recognised in the statement of comprehensive income.

The fair value of the investment property under development is based on valuations by independent valuers who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property less the estimated costs to complete the individual projects to the stage where they could be marketed and the estimated developer’s profit margin. A discount rate that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

In the past the Group allocated fair value of investment property under development projects between fair value of land and other costs of constructions. Due to changes in standard requirements starting from the Consolidated Interim Financial statements for the six month period ended 30 June 2010 the Group discloses fair value of investment property under development projects as single amounts.

In 2009 the Group decided to change the concept of OAO “Zavod Elektrik” to residential property. Initially, the Group intended to build an office centre with a gross buildable area of 346,924 square meters, a net leasable area of 179,559 square meters and with parking for 2,663 cars on the land plot, belonging to the Group subsidiary OAO “Zavod Elektrik”, which was treated as an investment property under development. However, as the prospects of the St. Petersburg office real estate market seem weaker as compared to the residential property market, the Group decided to reposition the project to the residential development and started the works for re-design in 2009. Accordingly, reclassification of this land plot and construction capitalized into inventory was made.

Until the date of reclassification OAO “Zavod Elektrik” investment property under development was stated at fair value. The effect of loss from revaluation of this investment property under development in six months ended 30 June 2009 recognised in the statement of comprehensive income amounted to RUR 1,872,228 thousand / USD 56,618 thousand.

As there were no significant changes in assumptions, the Group has not carried out a valuation of investment property under development as at 30 June 2010 and reflected investment properties at values received as a result of valuation performed as at 31 December 2009. The major assumptions used in valuation models and valuation results as at 31 December 2009 are as follows:

						Rent rates assumed per sq mtr			
Project	**Expected occupa-tion rate**	**Discount rate used**	**Location**	**Gross buildable area**	**Fair value of investment projects**	**Offices**	**Retail**	**Other**	**Parking (per lot)**
				Sq mtr	**’000 RUR**	**RUR**	**RUR**	**RUR**	**RUR**
TOC na Leningradskom	78%	22%	Vyborg, Lenigradskiy pr. 17	9,283	32,552	11,000	-	-	-
Kuybisheva	90%	22%	Saint-Petersburg, Kuybisheva str. 13 B	10,276	145,675	13,500	-	13,500	60,000
Hermitage View House	90%	17%	Saint-Petersburg, Zoologicheskiy Lane 2-4	19,374	212,337	17,000	18,000	18,000	96,000
					390,564				
				Sq mtr	**’000 USD**	**USD**	**USD**	**USD**	**USD**
TOC na Leningradskom	78%	22%	Vyborg, Lenigradskiy pr. 17	9,283	1,076	364	-	-	-
Kuybisheva	90%	22%	Saint-Petersburg, Kuybisheva str. 13 B	10,276	4,816	446	-	446	1,984
Hermitage View House	90%	17%	Saint-Petersburg, Zoologicheskiy Lane 2-4	19,374	7,022	562	595	595	3,174
					12,914				

The properties are expected to be completed in period from 2011 till the middle of 2013.

Investment properties under development with a fair value of RUR 244,353 thousand / USD 7,833 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 212,337 thousand / USD 7,021 thousand) - refer to note 25.

Sensitivity analysis

A 10% increase in the estimated rental rates would have increased fair values of investment projects and profit by RUR 124,682 thousand / USD 4,146 thousand. A 10% decrease in the estimated rental would have an equal but opposite effect on the basis that all other variables remain constant.

A 10% increase in the assumed discount rate would have decreased fair values of investment projects and profit by RUR 44,793 thousand / USD 1,489 thousand. A 10% decrease in the assumed discount rate would have increased fair values of investment projects and profit by RUR 49,100 thousand / USD 1,633 thousand on the basis that all other variables remain constant.

A 10% increase in the anticipated costs to completion of individual projects would have decreased fair values of investment projects and profit by RUR 84,458 thousand / USD 2,809 thousand. A 10% decrease in these costs would have an equal but opposite effect on the basis that all other variables remain constant. A 10% increase in the anticipated occupancy rates of individual projects would have increased the fair values of investment projects and profit by RUR 108,626 thousand / USD 3,613 thousand. A 10% decrease in the anticipated occupancy rates of individual projects would have decreased fair values of investment projects and profit by RUR 148,077 thousand / USD 4,925 thousand.

16 Investment property

’000 RUR	**2010**	**2009**
Cost		
At 1 January	2,304,827	1,925,057
Additions	915	-
Disposal	(15)	-
Change in fair value	-	-
At 30 June	2,305,727	1,925,057

’000 USD	**2010**	**2009**
Cost		
At 1 January	76,207	65,522
Additions	30	-
Disposal	-	-
Change in fair value	-	-
Effect of movements in exchange rates	(2,325)	(4,000)
At 30 June	73,912	61,522

Investment property comprises a number of commercial properties that are leased to third parties. External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the Group’s investment property portfolio on a regular basis. The fair values are based on the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction.

Because there were no significant changes in market conditions, the Group has not carried out a valuation of investment property as at 30 June 2010 and reflected investment properties at values received as a result of valuation performed as at 31 December 2009. In preparing the valuations of the existing office properties as of 31 December 2009 the comparable approach has been used.

The following amounts were recognized in the Consolidated Statement of Comprehensive Income in respect of investment property:

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Rental income from investment property	70,924	76,765	2,359	2,321
Direct operating expenses arising from investment property that generated rental income during the period	19,225	5,811	639	175

As of 30 June 2010 there are no investment properties pledged as collateral to secure bank loans (31 December 2009: RUR 2,304,827 thousand / USD 76,207 thousand) - refer to note 25.

17 Other investments

	30 June 2010 ’000 RUR	**31 December 2009 ’000 RUR**	**30 June 2010 ’000 USD**	**31 December 2009 ’000 USD**
Non-current				
Available-for-sale investments:				
Stated at cost	33,389	11,578	1,070	383
Originated loans	25,513	37,860	818	1,252
	58,902	49,438	1,888	1,635
Current				
Available-for-sale investments:				
Stated at fair value	-	2,365	-	78
Held to maturity investments	19,487	-	625	-
Bank deposits	4,036,000	-	129,378	-
Originated loans	108,827	121,441	3,489	4,016
	4,164,314	123,806	133,492	4,094

Available-for-sale investments stated at cost comprise unquoted equity securities in the construction industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows in this industry. However, management does not believe that the fair value at the end of the period would differ significantly from that carrying amount.

The Group’s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 28.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

’000 RUR	Assets		Liabilities		Net	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Property, plant and equipment	(429,193)	(314,588)	1,864,606	1,772,801	1,435,413	1,458,213
Intangible assets	(27)	(19)	108,720	114,246	108,693	114,227
Investment property under development	(12,884)	(12,189)	2,284	112,980	(10,600)	100,791
Investment property	-	-	346,846	345,090	346,846	345,090
Inventories	(619,037)	(549,571)	419,135	309,084	(199,902)	(240,487)
Trade and other receivables	(329,406)	(348,416)	32,054	10,659	(297,352)	(337,757)
Loans and borrowings	(71,772)	(89,807)	10,981	12,797	(60,791)	(77,010)
Provisions	(9,918)	(8,721)	-	-	(9,918)	(8,721)
Trade and other payables	(108,872)	(156,823)	17,464	14,982	(91,408)	(141,841)
Tax loss carry-forwards	(869,399)	(610,714)	-	-	(869,399)	(610,714)
Tax (assets)/liabilities	(2,450,508)	(2,090,848)	2,802,090	2,692,639	351,582	601,791
Set off of tax	1,071,930	924,618	(1,071,930)	(924,618)	-	-
Net tax (assets)/liabilities	(1,378,578)	(1,166,230)	1,730,160	1,768,021	351,582	601,791

’000 USD	Assets		Liabilities		Net	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Property, plant and equipment	(13,758)	(10,402)	59,772	58,616	46,014	48,214
Intangible assets	(1)	(1)	3,485	3,777	3,484	3,776
Investment property under development	(413)	(403)	73	3,736	(340)	3,333
Investment property	-	-	11,118	11,410	11,118	11,410
Inventories	(19,844)	(18,171)	13,436	10,221	(6,408)	(7,950)
Trade and other receivables	(10,559)	(11,520)	1,028	352	(9,531)	(11,168)
Loans and borrowings	(2,301)	(2,969)	352	423	(1,949)	(2,546)
Provisions	(318)	(288)	-	-	(318)	(288)
Trade and other payables	(3,491)	(5,185)	560	495	(2,931)	(4,690)
Tax loss carry-forwards	(27,869)	(20,193)	-	-	(27,869)	(20,193)
Tax (assets)/liabilities	(78,554)	(69,132)	89,824	89,030	11,270	19,898
Set off of tax	34,362	30,572	(34,362)	(30,572)	-	-
Net tax (assets)/liabilities	(44,192)	(38,560)	55,462	58,458	11,270	19,898

Temporary difference of RUR 21,176,256 thousand / USD 678,826 thousand (31 December 2009: RUR 22,091,261 thousand / USD 730,430 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and the reversal is not expected in the foreseeable future.

Deferred tax assets on tax losses carry-forward recognised as at 30 June 2010 represent tax effect of accumulated unused tax losses recoverable by the future taxable profit. In accessing recoverability of deferred tax assets on tax losses carry-forward the Group applied the same data as it used for impairment testing of goodwill and property, plant and equipment (refer to note 14).The major part of those tax losses relates to business segments Real Estate Development, Building Materials and Other Entities and expire in 2018-2020.

(b) Movement in temporary differences during the year

'000 RUR	**1 January 2010**	**Recognised in profit or loss**	**Effect of movements in exchange rate**	**30 June2010**
Property, plant and equipment	1,458,213	(25,050)	2,250	1,435,413
Intangible assets	114,227	(5,534)	-	108,693
Investment property under development	100,791	(111,391)	-	(10,600)
Investment property	345,090	1,756	-	346,846
Investments	-	-	-	-
Inventories	(240,487)	40,585	-	(199,902)
Trade and other receivables	(337,757)	40,405	-	(297,352)
Loans and borrowings	(77,010)	16,219	-	(60,791)
Provisions	(8,721)	(1,197)	-	(9,918)
Trade and other payables	(141,841)	50,433	-	(91,408)
Tax loss carry-forwards	(610,714)	(265,017)	6,332	(869,399)
	601,791	(258,791)	8,582	351,582

'000 RUR	**1 January 2009**	**Recognised in profit or loss**	**Effect of movements in exchange rate**	**30 June 2009**
Property, plant and equipment	1,627,530	(35,061)	(6,823)	1,585,646
Intangible assets	134,744	(14,625)	-	120,119
Investment property under development	502,343	(409,020)	-	93,323
Investment property	265,021	2,070	-	267,091
Investments	(2,009)	2,009	-	-
Inventories	(286,508)	(36,646)	-	(323,154)
Trade and other receivables	(298,710)	3,814	-	(294,896)
Loans and borrowings	(114,798)	37,822	-	(76,976)
Provisions	(9,705)	(10,953)	-	(20,658)
Trade and other payables	(276,154)	43,603	-	(232,551)
Tax loss carry-forwards	(172,558)	(277,859)	(1,381)	(451,798)
	1,369,196	(694,846)	(8,204)	666,146

'000 USD	**1 January 2010**	**Recognised in profit or loss**	**Effect of movements in exchange rate**	**30 June 2010**
Property, plant and equipment	48,214	(833)	(1,367)	46,014
Intangible assets	3,776	(184)	(108)	3,484
Investment property under development	3,333	(3,705)	32	(340)
Investment property	11,410	58	(350)	11,118
Investments	-	-	-	-
Inventories	(7,950)	1,350	192	(6,408)
Trade and other receivables	(11,168)	1,344	293	(9,531)
Loans and borrowings	(2,546)	539	58	(1,949)
Provisions	(288)	(40)	10	(318)
Trade and other payables	(4,690)	1,677	82	(2,931)
Tax loss carry-forwards	(20,193)	(8,814)	1,138	(27,869)
	19,898	(8,608)	(20)	11,270

'000 USD	**1 January 2009**	**Recognised in profit or loss**	**Effect of movements in exchange rate**	**30 June 2009**
Property, plant and equipment	55,395	(1,060)	(3,659)	50,676
Intangible assets	4,586	(442)	(305)	3,839
Investment property under development	17,098	(12,370)	(1,745)	2,983
Investment property	9,020	63	(547)	8,536
Investments	(68)	61	7	-
Inventories	(9,752)	(1,109)	532	(10,329)
Trade and other receivables	(10,167)	115	627	(9,425)
Loans and borrowings	(3,907)	1,144	303	(2,460)
Provisions	(330)	(332)	2	(660)
Trade and other payables	(9,399)	1,320	647	(7,432)
Tax loss carry-forwards	(5,874)	(8,403)	(162)	(14,439)
	46,602	(21,013)	(4,300)	21,289

19 Inventories

	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	’000 RUR	’000 RUR	’000 USD	’000 USD
Work in progress, construction of buildings	39,674,284	42,794,692	1,271,799	1,414,972
Finished goods, construction of buildings	11,280,847	7,508,160	361,619	248,251
Raw materials and consumables	1,430,309	1,571,237	45,851	51,952
Finished goods and goods for resale	1,974,994	1,529,191	63,310	50,561
Work in progress	486,812	355,692	15,605	11,761
Lease incentives	1,366,727	1,366,727	43,812	45,190
	56,213,973	55,125,699	1,801,996	1,822,687
Write down of inventories in the current period	-	529,084	-	16,678

Inventories with a carrying amount of RUR 8,331,858 thousand /USD 267,086 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 6,050,773 thousand /USD 200,064 thousand) (refer to note 25).

20 Trade and other receivables

	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 USD	31 December 2009 '000 USD
Non-current				
Accounts receivable - trade	1,412	5,791	45	191
Prepayments to suppliers	568,168	800,643	18,213	26,472
Other receivables	1,072,663	1,134,317	34,386	37,506
	1,642,243	1,940,751	52,644	64,169
Current				
Prepayments for flats	1,310,431	1,231,753	42,007	40,727
Accounts receivable – trade	2,298,727	2,061,310	73,688	68,156
Prepayments to suppliers	1,504,452	1,384,190	48,227	45,767
VAT receivable	565,002	796,205	18,112	26,326
Deferred expenses	142,858	814,635	4,579	26,935
Notes receivable	1,259,997	1,417,184	40,389	46,858
Amounts due from customers for contract work	1,656,947	1,155,758	53,115	38,214
Employee receivables	5,951	5,383	191	178
Current receivables on disposals of subsidiaries	-	29,531	-	976
Other receivables	1,453,544	1,269,579	46,596	41,978
	10,197,909	10,165,528	326,904	336,115
Provision for doubtful debtors	(803,869)	(836,755)	(25,769)	(27,667)
	9,394,040	9,328,773	301,135	308,448

Prepayments for flats acquired for resale include RUR thousand 505,080 / USD thousand 16,191 for flats that will be received after 12 months from the balance sheet date (31 December 2009: RUR 439,892 thousand / USD 14,545 thousand).

Other non-current receivables include the advance of RUR 830,017 thousand / USD 26,607 thousand (31 December 2009: RUR 903,154 thousand / USD 29,862 thousand) paid to CERIC S.A. for the supply of equipment for the new brick-making plant. This advance was reclassified from property, plant and equipment as management believes that due to the bankruptcy of CERIC S.A. the Group will receive back cash on bank guarantee rather than equipment (refer to note 31 (b)).

Receivables with a carrying amount of RUR 38,783 thousand /USD 1,243 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 25,344 thousand /USD 838 thousand) (refer to note 25).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 28.

21 Cash and cash equivalents

	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 USD	31 December 2009 '000 USD
Petty cash	5,633	8,184	181	271
Current accounts	2,752,102	681,975	88,221	22,549
Call deposits	900,066	2,205,391	28,853	72,919
Cash and cash equivalents in the statement of financial position	3,657,801	2,895,550	117,255	95,739
Cash and cash equivalents in the statement of cash flows	3,657,801	2,895,550	117,255	95,739

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

22 Restricted cash

	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 USD	31 December 2009 '000 USD
Non-current				
Restricted cash	176,330	396,487	5,652	13,110
Current				
Restricted cash	85,195	35	2,731	1
	261,525	396,522	8,383	13,111

Restricted cash includes the amount of RUR 176,330 thousand /USD 5,652 thousand (31 December 2009: RUR 396,487 thousand /USD 13,110 thousand) which is reserved in connection with confirmed irrevocable letters of credit issued by the Group's bankers on building of Cement Plant in Leningrad Region. The restriction expires before 31 December 2010.

23 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares	
	30 June 2010	**31 December 2009**
Par value	RUR 0.25	RUR 0.25
On issue at beginning of the period	93,663,832	93,663,832
On issue at end of the period, fully paid	93,663,832	93,663,832

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In April 2010 Federal Service on Financial Markets (FSFR of Russian Federation) registered the additional issue of ordinary shares. On 11 May 2010 9,366,383 shares were paid by cash transferred to the Group. Proceeds from the issue were presented as an additional paid in capital in the Group's 2010 interim financial statements.

In May 2010 the Group completed its secondary public offering of 9,366,383 ordinary shares at USD 41.33 each and placed global depository receipts (“GDR`s”) on the London Stock Exchange as well as shares on the Non-for-Profit Partnership “Stock Exchange “Russian Trading System” and Closed Joint Stock Company “Moscow Interbank Currency Exchange”. Cash in the amount of USD 385,316 thousand, generated from the public offering, was partly used for bank loans repayment.

The remaining part of the cash, generated by the secondary public offering, is expected to be used to finance new projects and acquisitions. As had been disclosed in the Prospectus for the Secondary Public Offering on the London Stock exchange, pursuant to the Securities Lending Agreement between Mr. Molchanov and Streetlink Limited dated 26 February 2010, Mr. Molchanov has loaned to Streetlink Limited 50,008,393 Ordinary Shares of the Company in order to allow Streetlink to sell GDRs in the Offering. As holder of the Loaned Shares on the record date for the Open Subscription, Streetlink Limited has agreed in the Underwriting Agreement to subscribe for 9,366,383 Committed Shares in the Open Subscription at the Preemption Share Price, the purchase of which it funded with the net proceeds from its sale of GDRs in the Offering. Streetlink Limited is expected to deliver thereafter to Mr. Molchanov the Committed Shares in satisfaction of its obligations under the Securities Lending Agreement. The Group received from Streetlink Limited proceeds from issue net of cost of transactions before 30 June 2010.

The appropriate changes to the Company’s charter capital in relation to new shares issued were not approved as at 30 June 2010. Additional paid in capital reserve formed from proceeds from the issue will be transferred to share capital and share premium after appropriate changes will be made to the Company's charter documents. For the purpose of calculating earnings per share the share issuance was taken into account from 11 May 2010, as described in note 24.

(b) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 30 June 2010 the Company had retained earnings, including the profit for the current period, of RUR 465,334 thousand/ USD 14,917 thousand (as at 31 December 2009: RUR 97,048 thousand/ USD 3,209 thousand).

24 Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of the Company divided by the weighted average number of ordinary shares outstanding during the year, refer to note 23 (a). The Company has no dilutive potential ordinary shares.

	2010	**2009**
Issued shares at 1 January	93,663,832	93,663,832
Effect of shares issued in May 2010	9,366,383	-
Weighted average number of shares for the six months ended 30 June	96,302,979	93,663,832

25 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 28.

	30 June 2010	**31 December 2009**	**30 June 2010**	**31 December 2009**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Non-current				
Secured bank loans	23,541,356	21,861,290	754,642	722,826
Unsecured bank loans	-	2,000,000	-	66,128
Unsecured other loans	587	597	19	20
Unsecured bond issues	1,500,000	-	48,084	-
Finance lease liability	329,945	571,586	10,577	18,899
	25,371,888	24,433,473	813,322	807,873
Current				
Secured bank loans	5,066,808	8,583,432	162,422	283,804
Unsecured bank loans	1,306,977	3,165,179	41,896	104,654
Unsecured other loans	206,386	43,514	6,617	1,439
Unsecured bond issue	3,450,906	2,669,990	110,622	88,281
Finance lease liability	488,433	645,303	15,657	21,337
	10,519,510	15,107,418	337,214	499,515

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2010		31 December 2009	
'000 RUR	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured facility	EUR	Euribor+2.50%/7.75 % 7.00% - 17.50%	2010-2018	5,114,271	5,114,271	5,809,416	5,809,416
	USD	9.00% - 10.00% Libor+5.50%/7.81%	2010-2019	13,601,843	13,601,843	13,290,977	13,290,977
	RUR	9.20% - 14.00% CBR rate+3%	2010-2014	9,887,890	9,887,890	11,339,481	11,339,481
	Other	2.80% - 6.00%	2010-2027	4,160	4,160	4,848	4,848
Unsecured facility	USD	20.00%	2010	-	-	1,285,379	1,285,379
	RUR	0 – 17.00%	2010-2012	6,464,856	6,464,856	6,593,901	6,593,901
Finance lease liability		6.30 – 49.70%	2010-2012	818,378	818,378	1,216,889	1,216,889
				35,891,398	35,891,398	39,540,891	39,540,891

				30 June 2010		31 December 2009	
'000 USD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured facility	EUR	Euribor+2.50%/7.75 %	2010-2018	163,943	163,943	192,084	192,084
	USD	7.00% - 17.50% 9.00% - 10.00%	2010-2019	436,021	436,021	439,455	439,455
	RUR	Libor+5.50%/7.81% 9.20% - 14.00%	2010-2014	316,966	316,966	374,931	374,931
	Other	CBR rate+3% 2.80% - 6.00%	2010-2027	134	134	160	160
Unsecured facility	USD	20.00%	2010	-	-	42,500	42,500
	RUR	0 – 17.00%	2010-2012	207,238	207,238	218,022	218,022
Finance lease liability		6.30 – 49.70%	2010-2012	26,234	26,234	40,236	40,236
				1,150,536	1,150,536	1,307,388	1,307,388

Covenants and other matters

The Credit Agreements require the Group to comply with certain general, informational and financial covenants, including:

– a negative pledge significantly restricting the Group's ability, subject to certain exceptions, to create any additional security over its assets without the prior permission of the lender;

– a ''no disposals'' pledge significantly restricting the Group's ability to dispose of any of its assets, subject to certain exceptions, without the prior permission of the lender;

– a prohibition restricting the Group ability to make very significant acquisitions without the prior permission of the lender other than acquisitions in its core business;

- a limitation on the Group ability to incur additional debt beyond a certain Total debt / EBITDA ratio, certain Total debt / Tangible Net Worth ratio and a certain EBIT/ gross interest ratio;
- subject to certain exceptions, a prohibition restricting the Group ability to make significant loans, or give credit, guarantees or indemnities to the third party;
- a restriction on paying or declaring any dividend or other distribution or interest on any unpaid interest (whether in cash or in kind);
- a liability to provide to the Banks with such financial and other information, the Banks may reasonably require in relation to the loan contracts, including the Group annual audited and unaudited consolidated financial statements, prepared in accordance with IFRS.

Finance lease liabilities are payable as follows:

’000 RUR	**30 June 2010**			**31 December 2009**		
	Payments	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	597,097	108,664	488,433	813,046	167,743	645,303
Between one and five years	398,790	68,845	329,945	692,896	121,310	571,586
	995,887	177,509	818,378	1,505,942	289,053	1,216,889

’000 USD	**30 June 2010**			**31 December 2009**		
	Payments	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	19,140	3,483	15,657	26,883	5,546	21,337
Between one and five years	12,784	2,207	10,577	22,910	4,011	18,899
	31,924	5,690	26,234	49,793	9,557	40,236

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 8,050,975 thousand /USD 258,082 thousand is pledged as collateral to secure bank loans (31 December 2009: RUR 7,732,231 thousand / USD 255,660 thousand) – refer to note 13(b).
- Investment property under development with a fair value of RUR 244,353 thousand / USD 7,833 thousand is pledged as collateral to secure bank loans (31 December 2009: RUR 212,337 thousand / USD 7,021 thousand) – refer to note 15.
- As of 30 June 2010 there are no investment properties pledged as collateral to secure bank loans (31 December 2009: 2,304,827 thousand / USD 76,207 thousand) – refer to note 16.
- Inventories with a carrying amount of RUR 8,331,858 thousand /USD 267,086 thousand are pledged as collateral to secure bank loans. (31 December 2009: RUR 6,050,773 thousand / USD 200,064 thousand) – refer to note 19.
- Intangibles with a carrying amount of RUR 1,569 thousand /USD 50 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 2,443 thousand / USD 81 thousand) – refer to note 14.
- Receivables with a carrying amount of RUR 38,783 thousand /USD 1,243 thousand are subject to a registered debenture to secure bank loans (31 December 2009: RUR 25,344 thousand /USD 838 thousand) – refer to note 20.

The finance lease liabilities are secured by the leased assets (refer to note 13(c)).

Bank loans are secured by the pledge of the following shares in subsidiary companies as of 30 June 2010:

- 100.00% of OAO “Granit-Kuznechnoye”;
- 100.00 % of OAO MTO “ARHPROEKT”;
- 100.00% of ZAO “DSK “Blok”;
- 100.00% of OOO “Martynovka”;
- 100.00% of ZAO “Promyshlenny leasing” (formerly OOO “Promyshlenny leasing”);
- 100.00% of ZAO “INGEOKOM S-Pb”.
- 100.00% of LLC “Cement”.

26 Provisions

’000 RUR	**Site restoration**	**Environment restoration**	**Warranty provision**	**Total**
Current				
Balance at 1 January 2010	553,861	5,797	6,421	566,079
Change in amount discounted	-	762	-	762
Provisions made during the period	76,379	-	1,070	77,449
Provisions used during the period	(332,270)	-	-	(332,270)
Exchange differences (+/-)	-	-	(770)	(770)
Balance at 30 June 2010	297,970	6,559	6,721	311,250
Non-current				
Balance at 1 January 2010	-	741	-	741
Change in amount discounted	-	74	-	74
Balance at 30 June 2010	-	815	-	815

’000 USD	**Site restoration**	**Environment restoration**	**Warranty provision**	**Total**
Current				
Balance at 1 January 2010	18,313	192	212	18,717
Change in amount discounted	-	25	-	25
Provisions made during the period	2,540	-	36	2,576
Provisions used during the period	(11,051)	-	-	(11,051)
Effect of movements in exchange rates	(250)	(7)	(33)	(290)
Balance at 30 June 2010	9,552	210	215	9,977
Non-current				
Balance at 1 January 2010	-	25	-	25
Change in amount discounted	-	1	-	1
Balance at 30 June 2010	-	26	-	26

(a) Warranty provision

The provision for warranties relates mainly to the residential units sold during the period. The provision is based on estimates made from historical warranty data associated with similar products and services and is required under the German legislation. The Group expects the resulting outflow of economic benefits over the next year. For the production companies warranty provision relates to the construction works done.

(b) Site restoration

The Group records provisions in respect of the Group's obligation to incur additional costs including costs associated with clean up the surrounding area after finishing the construction of apartment buildings in St. Petersburg. The Group expects the resulting outflow of economic benefits over the next year.

(c) Environment restoration

The Group records provisions in respect of the Group's obligation to clean up the surrounding area after quarrying sand in forested areas. The damage caused during quarrying is cleaned up after quarrying is completed. The amount of provision is estimated based on the average cost of past restoration works and current information available. The Group expects the resulting outflow of economic benefits over the next five years.

27 Trade and other payables

	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 USD	31 December 2009 '000 USD
Non-current payables				
Other payables	518	453	16	15
	518	453	16	15
Current payables				
Prepayments received for flats	16,745,202	17,621,161	536,785	582,630
Accounts payable – trade	3,319,334	3,784,067	106,405	125,117
Advances from customers	2,769,728	1,786,315	88,786	59,063
Notes payable	21,016	18,334	674	606
Employee-related liabilities	684,637	516,545	21,947	17,079
Other taxes payable	1,025,378	1,537,882	32,870	50,849
Non-controlling interest in limited liability subsidiaries	56,103	55,213	1,798	1,826
Accounts due to customers for contract work	1,695,409	1,560,702	54,348	51,603
Interest payable	730,876	480,824	23,429	15,899
Deferred income	74,759	86,811	2,396	2,870
Other payables	840,014	735,826	26,927	24,329
	27,962,456	28,183,680	896,365	931,871

Prepayments received for flats include RUR 1,913,264 thousand / USD 61,332 thousand for flats, which are expected to be delivered after 12 months from the balance sheet date (31 December 2009: RUR 880,398 thousand / USD 29,110 thousand).

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

28 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated interim financial statement.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. One customer of the Group's construction segment represents approximately RUR 2,652,848 thousand/ USD 88,229 thousand or more than 10% of the Group's revenue (refer to note 5 (c)). Geographically there is concentration of credit risk as the most significant part of Group's operations is located in Russia.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Managing Directors; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

As a result of the deteriorating economic circumstances in 2008 and 2009, certain purchase limits have been redefined, particularly for the customers operating in the Building Materials, Construction and Aggregates business segments, since the Group has experienced that the economic downturn has had a greater impact in these business segments than in the Group's other business segments.

Most of the Group's customers in the Building Materials, Construction and Aggregates segments have been transacting with the Group for over four years, and losses have occurred infrequently. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group does not have a unified policy for management of credit risk in place. Due to significant differences in operations at different business units specific credit policies are developed at the level of operational companies. Each of the operating companies has established procedures in place to review and collect outstanding receivables. New customers, as well as customers with significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place. All companies involved in the extraction and production of building materials have in place credit control procedures which require them to cancel despatching goods in case of the absence of a signed contract, previous fail to pay or previous violations of contract conditions. Also certain limits for the accounts receivable are established for particular customers.

In the Real Estate Development segment most sales are on prepayment and cash basis, as the customers are individuals.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. This allowance represents a specific loss component that relates to individually significant exposures.

(ii) Investments

The Group does not invest any of its assets in traded securities. It limits its exposure to credit risk by only investing in securities and only with counterparties that are known to them and that have an appropriate reputation in the market. Management does not expect any counterparty to fail to meet its obligations.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to its own subsidiaries. At 30 June 2010 no guarantees were outstanding (31 December 2009: none).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUR	Carrying amount	
	30 June 2010	31 December 2009
Available-for-sale financial assets	33,389	13,943
Loans and receivables	7,194,008	6,544,775
Held to maturity investments	19,487	-
Bank deposits	4,036,000	-
Cash and cash equivalents	3,657,801	2,895,550
Restricted cash	261,525	396,522
	15,202,210	9,850,790

'000 USD	Carrying amount	
	30 June 2010	31 December 2009
Available-for-sale financial assets	1,070	461
Loans and receivables	230,612	216,399
Held to maturity investments	625	-
Bank deposits	129,378	-
Cash and cash equivalents	117,255	95,739
Restricted cash	8,383	13,111
	487,323	325,710

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

'000 RUR	Carrying amount	
	30 June 2010	31 December 2009
Domestic	1,528,992	1,430,224
Euro-zone countries	121,653	34,233
Other CIS countries	122,998	90,594
	1,773,643	1,555,051

'000 USD	Carrying amount	
	30 June 2010	31 December 2009
Domestic	49,013	47,290
Euro-zone countries	3,900	1,132
Other CIS countries	3,943	2,995
	56,856	51,417

The Group's most significant trade debtor, OOO "NSK-Monolith", accounts for RUR 56,809 thousand / USD 1,821 thousand of the trade receivables carrying amount at 30 June 2010 (31 December 2009: RUR 77,187 thousand / USD 2,552).

The total amount of impaired trade receivables at the reporting date was RUR 526,496 thousand / USD 16,877 thousand (31 December 2009: RUR 512,050 thousand / USD 16,930 thousand). At 30 June 2010 the Group did not have any general provisions on its trade receivables (31 December 2009: nil).

The aging of trade receivables at the reporting date was:

	Gross 30 June 2010	Impairment 30 June 2010	Gross 31 December 2009	Impairment 31 December 2009
	’000 RUR	’000 RUR	’000 RUR	’000 RUR
Not past due	1,217,188	35,567	732,927	2,753
Past due 0-30 days	204,228	2,303	267,793	836
Past due 31-150 days	269,944	5,316	390,502	33,580
Past due more than 150 days	608,779	483,310	675,879	474,881
	2,300,139	526,496	2,067,101	512,050

	Gross 30 June 2010	Impairment 30 June 2010	Gross 31 December 2009	Impairment 31 December 2009
	’000 USD	’000 USD	’000 USD	’000 USD
Not past due	39,018	1,140	24,234	91
Past due 0-30 days	6,547	74	8,854	28
Past due 31-150 days	8,653	170	12,912	1,110
Past due more than 150 days	19,515	15,493	22,347	15,701
	73,733	16,877	68,347	16,930

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2010	2009
	’000 RUR	’000 RUR
Balance at 1 January	(512,050)	(78,270)
Impairment loss recognised	(14,446)	(258,769)
Balance at 30 June	(526,496)	(337,039)

	2010	2009
	’000 USD	**’000 USD**
Balance at 1 January	(16,930)	(2,664)
Impairment loss recognised	(480)	(7,825)
Effect of movements in exchange rates	533	(282)
Balance at 30 June	(16,877)	(10,771)

The impairment loss at 30 June 2010 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and internal analysis on the underlying customers’ credit ratings.

The movement in the allowance for impairment in respect of advances paid and other receivables during the period was as follows:

	2010	2009
	’000 RUR	**’000 RUR**
Balance at 1 January	(324,705)	(68,177)
Impairment (loss) / reversal	47,332	6,136
Balance at 30 June	(277,373)	(62,041)

	2010	2009
	’000 USD	**’000 USD**
Balance at 1 January	(10,737)	(2,320)
Impairment (loss) / reversal	1,574	186
Effect of movements in exchange rates	271	151
Balance at 30 June	(8,892)	(1,983)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group uses cash flow budgets which are prepared for each year and quarter to forecast potential liquidity deficit and identify sources of covering that deficit. As at 30 June 2010 the Group’s undrawn short-term credit facilities amount is RUR 2,984,008 thousand / USD 95,655 thousand (31 December 2009: RUR 2,101,193 thousand / USD 69,474 thousand) from Russian, and Ukrainian banks. Interest would be payable at the rate of 9.50% to 12.50%.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

30 June 2010	**Average interest rate**					
'000 RUR	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	9.20%-14.00%	10.23%	4,134,196	4,384,018	-	8,518,214
RUR*	CBR rate+3%	10.75%	-	684,838	684,838	1,369,676
USD*	9.00% - 10.00%	9.91%	194,971	8,914,087	-	9,109,058
USD	Libor+5.50%/ 7.81%	8.33%	465,124	2,040,776	1,986,885	4,492,785
EUR*	7.00% - 17.50%	7.42%	206,429	2,531,247	1,864,826	4,602,502
EUR	Euribor+2.50%/ 7.75%	4.76%	65,724	424,797	21,248	511,769
Other*	2.80% - 6.00%	5.91%	364	961	2,835	4,160
Unsecured bank loans:						
RUR*	10.00% - 12.00%	10.01%	1,306,977	-	-	1,306,977
Unsecured other loans:						
RUR*	0.00% - 15.00%	10.72%	206,386	587	-	206,973
Unsecured bond issues:						
RUR*	10.50%-17.00%	12.91%	3,450,906 -	1,500,000	-	4,950,906
Finance lease liabilities						
RUR*	6.30%-48.93%	18.31%	488,433	329,945	-	818,378
Trade and other payables		-	4,967,343	518	-	4,967,861
			15,486,853	20,811,774	4,560,632	40,859,259

*Fixed rate

31 December 2009	**Average interest rate**					
'000 RUR	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	8.95%-17.30%	12.8%	7,643,153	3,696,328	-	11,339,481
USD*	9.00% - 12.00%	11.4%	362,931	8,468,377	-	8,831,308
USD	Libor + 5.50% / 7.81%	8.64%	450,941	3,650,414	358,314	4,459,669
EUR*	7.00%-17.50%	7.57%	41,345	2,702,125	2,472,313	5,215,783
EUR	Euribor +1.50% / 7.75%	4.67%	84,722	508,911	-	593,633
Other*	2.80% - 6.00%	5.89%	340	1,185	3,323	4,848
Unsecured bank loans:						
RUR*	6.00% - 13.20%	12.84%	1,879,800	2,000,000	-	3,879,800
USD	Libor + 8.25%	8.70%	1,285,379	-	-	1,285,379
Unsecured other loans:						
RUR*	0.0%-0.01%	0.00%	43,514	-	597	44,111
Unsecured bond issues:						
RUR*	13.25%-17.00%	13.25%	2,669,990 -	-	-	2,669,990
Finance lease liabilities						
RUR*	6.30% - 49.70%	18.31%	645,303	571,586	-	1,216,889
Trade and other payables		-	5,074,264	453	-	5,074,717
			20,181,682	21,599,379	2,834,547	44,615,608

*Fixed rate

30 June 2010	**Average interest rate**					
’000 USD	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	9.20%-14.00%	10.23%	132,526	140,534	-	273,060
RUR*	CBR rate+3%	10.75%	-	21,953	21,953	43,906
USD*	9.00% - 10.00%	9.91%	6,250	285,750	-	292,000
USD	Libor+5.50%/ 7.81%	8.33%	14,910	65,419	63,692	144,021
EUR*	7.00% - 17.50%	7.42%	6,617	81,142	59,779	147,538
EUR	Euribor+2.50%/ 7.75%	4.76%	2,107	13,617	681	16,405
Other*	2.80% - 6.00%	5.91%	12	31	91	134
Unsecured bank loans:						
RUR*	10.00% - 12.00%	10.01%	41,896	-	-	41,896
Unsecured other loans:						
RUR*	0.00% - 15.00%	10.72%	6,617	19	-	6,636
Unsecured bond issues:						
RUR*	10.50%-17.00%	12.91%	110,622 -	48,084	-	158,706
Finance lease liabilities						
RUR*	6.30%-48.93%	18.31%	15,657	10,577	-	26,234
Trade and other payables		-	159,233	16	-	159,249
			496,447	667,142	146,196	1,309,785

*Fixed rate

31 December 2009	**Average interest rate**					
'000 USD	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	8.95%-17.30%	12.8%	252,715	122,216	-	374,931
USD*	9.00% - 12.00%	11.4%	12,000	280,000	-	292,000
USD	Libor + 5.5% / 7.81%	8.64%	14,910	120,698	11,847	147,455
EUR*	7.00%-17.50%	7.57%	1,367	89,344	81,745	172,456
EUR	Euribor + 1.50% / + 7.75%	4.67%	2,801	16,827	-	19,628
Other*	2.80% - 6.00%	5.89%	11	39	110	160
Unsecured bank loans:						
RUR*	6.00% - 13.20%	12.84%	62,154	66,128	-	128,282
USD	Libor + 8.25%	8.70%	42,500	-	-	42,500
Unsecured other loans:						
RUR*	0.0%-0.01%	0.00%	1,439	-	20	1,459
Unsecured bond issues:						
RUR*	13.25%-17.00%	13.25%	88,281 -	-	-	88,281
Finance lease liabilities						
RUR*	6.30% - 49.70%	18.31%	21,337	18,899	-	40,236
Trade and other payables		-	167,777	15	-	167,792
			667,292	714,166	93,722	1,475,180

* Fixed rate

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUR), but also Euro, Estonian Krone (EEK) and Ukrainian Hryvna (UAH). The currencies in which these transactions primarily are denominated are Euro and USD.

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

Exposure to currency risk

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

30 June 2010 **'000 RUR**	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**Other-denominated**
Trade and other receivables	6,970,955	12,906	53	75,807
Originated loans	134,340	-	-	-
Secured bank loans	(9,887,890)	(5,114,271)	(13,601,843)	(4,160)
Unsecured bank loans	(1,306,977)	-	-	-
Unsecured other loans	(206,973)	-	-	-
Unsecured bond issues	(4,950,906)	-	-	-
Finance lease liabilities	(818,378)	-	-	-
Trade and other payables	(4,861,540)	(28,492)	(18,166)	(59,663)
Gross balance sheet exposure	(14,927,369)	(5,129,857)	(13,619,956)	11,984

31 December 2009 **'000 RUR**	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**Other-denominated**
Trade and other receivables	6,319,083	18,771	-	47,620
Originated loans	159,301	-	-	-
Secured bank loans	(11,339,481)	(5,809,416)	(13,290,977)	(4,848)
Unsecured bank loans	(3,879,800)	-	(1,285,379)	-
Unsecured other loans	(44,111)	-	-	-
Unsecured bond issues	(2,669,990)	-	-	-
Finance lease liabilities	(1,216,889)	-	-	-
Trade and other payables	(4,936,834)	(34,721)	(7,467)	(95,695)
Gross balance sheet exposure	(17,608,721)	(5,825,366)	(14,583,823)	(52,923)

30 June 2010 **’000 USD**	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**Other-denominated**
Trade and other receivables	223,459	414	2	2,430
Originated loans	4,307	-	-	-
Secured bank loans	(316,966)	(163,943)	(436,021)	(134)
Unsecured bank loans	(41,896)	-	-	-
Unsecured other loans	(6,636)	-	-	-
Unsecured bond issues	(158,706)	-	-	-
Finance lease liabilities	(26,234)	-	-	-
Trade and other payables	(155,841)	(913)	(582)	(1,913)
Gross balance sheet exposure	(478,513)	(164,442)	(436,601)	(383)

31 December 2009 **’000 USD**	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**Other-denominated**
Trade and other receivables	208,935	621	-	1,575
Originated loans	5,268	-	-	-
Secured bank loans	(374,931)	(192,084)	(439,455)	(160)
Unsecured bank loans	(128,282)	-	(42,500)	-
Unsecured other loans	(1,459)	-	-	-
Unsecured bond issues	(88,281)	-	-	-
Finance lease liabilities	(40,236)	-	-	-
Trade and other payables	(163,233)	(1,148)	(247)	(3,164)
Gross balance sheet exposure	(582,219)	(192,611)	(482,202)	(1,749)

The following significant exchange rates applied during the period:

	30 June 2010	**31 December 2009**
	RUR	**RUR**
1 USD equals	31.1954	30.2442
1 Euro equals	38.1863	43.3883
1 EEK equals	2.4399	2.74374

Sensitivity analysis

A 10% strengthening of RUR against the above currencies would have increased profit by RUR 2,040,818 thousand / USD 65,420 thousand. A 10% weakening of the RUR against the above currencies would have the equal but opposite effect on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUR	**Carrying amount**	
	30 June 2010	**31 December 2009**
Fixed rate instruments		
Financial assets	4,223,216	173,244
Financial liabilities	(29,517,168)	(33,202,210)
	(25,293,952)	(33,028,966)
Variable rate instruments		
Financial liabilities	(6,374,230)	(6,338,681)

'000 USD	**Carrying amount**	
	30 June 2010	**31 December 2009**
Fixed rate instruments		
Financial assets	135,380	5,729
Financial liabilities	(946,204)	(1,097,805)
	(810,824)	(1,092,076)
Variable rate instruments		
Financial liabilities	(204,332)	(209,583)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the statement of comprehensive income.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and the statement of comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the six months 2009.

’000 RUR	**Profit or loss**	
	100 bp increase	**100 bp decrease**
Six months ended 30 June 2010		
Variable rate instruments	(63,742)	(63,742)
Cash flow sensitivity	(63,742)	(63,742)
Six months ended 30 June 2009		
Variable rate instruments	(52,441)	(52,441)
Cash flow sensitivity	(52,441)	(52,441)

’000 USD	**Profit or loss**	
	100 bp increase	**100 bp decrease**
Six months ended 30 June 2010		
Variable rate instruments	(2,043)	(2,043)
Cash flow sensitivity	(2,043)	(2,043)
Six months ended 30 June 2009		
Variable rate instruments	(1,676)	(1,676)
Cash flow sensitivity	(1,676)	(1,676)

(e) Fair values versus carrying amounts

The fair value of unquoted equity investments is discussed in note 4. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans.

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

'000 RUR	Note	Carrying amount 30 June 2010	Fair value 30 June 2010	Carrying amount 31 December 2009	Fair value 31 December 2009
Financial assets					
Available-for-sale financial assets	17	33,389	33,389	13,943	13,943
Loans and receivables		7,194,008	7,194,008	6,544,775	6,544,775
Held to maturity investments	17	19,487	19,487	-	-
Bank deposits	17	4,036,000	4,036,000	-	-
Cash and cash equivalents	21	3,657,801	3,657,801	2,895,550	2,895,550
Restricted cash	22	261,525	261,525	396,522	396,522
		15,202,210	15,202,210	9,850,790	9,850,790
Financial liabilities					
Secured bank loans	25	- (28,608,164)	(27,725,702)	(30,444,722)	(29,294,838)
Unsecured bank loans	25	- (1,306,977)	(1,247,632)	(5,165,179)	(4,897,591)
Unsecured other loans	25	(206,973)	(208,609)	(44,111)	(38,509)
Unsecured bond issues	25	(4,950,906)	(4,804,055)	(2,669,990)	(2,519,375)
Trade and other payables	27	(4,967,861)	(4,967,861)	(5,074,717)	(5,074,717)
Finance lease liabilities	25	(818,378)	(818,378)	(1,216,889)	(1,216,889)
		(40,859,259)	(39,772,237)	(44,615,608)	(43,041,919)

'000 USD	Note	Carrying amount 30 June 2010	Fair value 30 June 2010	Carrying amount 31 December 2009	Fair value 31 December 2009
Financial assets					
Available-for-sale financial assets	17	1,070	1,070	461	461
Loans and receivables		230,612	230,612	216,399	216,399
Held to maturity investments	17	625	625	-	-
Bank deposits	17	129,378	129,378	-	-
Cash and cash equivalents	21	117,255	117,255	95,739	95,739
Restricted cash	22	8,383	8,383	13,111	13,111
		487,323	487,323	325,710	325,710
Financial liabilities					
Secured bank loans	25 -	(917,064)	(888,775)	(1,006,630)	(968,610)
Unsecured bank loans	25 -	(41,896)	(39,994)	(170,782)	(161,935)
Unsecured other loans	25	(6,636)	(6,687)	(1,459)	(1,273)
Unsecured bond issues	25	(158,706)	(153,999)	(88,281)	(83,301)
Trade and other payables	27	(159,249)	(159,249)	(167,792)	(167,792)
Finance lease liabilities	25	(26,234)	(26,234)	(40,236)	(40,236)
		(1,309,785)	(1,274,938)	(1,475,180)	(1,423,147)

The interest rates used to discount estimated cash flows, where applicable, are based on marginal borrowing rates, available for the Group as at:

	30 June 2010	31 December 2009
Loans and borrowings	9.0% - 10.0%	9.0% - 13.0%
Leases	6.30% - 49.70%	6.30% - 49.70%

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of the transactions;
- requirements for the reconciliation and monitoring of the transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessments of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit, to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(g) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group’s operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group’s revenues and profit, and long-term investment plans mainly financed by the Group’s operating cash flows. With these measures the Group aims for steady profits growth.

The Group’s liabilities to adjusted capital ratio at the end of the reporting period were as follows:

	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	’000 RUR	’000 RUR	’000 USD	’000 USD
Total liabilities	65,996,528	70,693,324	2,115,587	2,337,419
Less: cash and cash equivalents	(3,657,801)	(2,895,550)	(117,255)	(95,739)
Net liabilities	62,338,727	67,797,774	1,998,332	2,241,680
Total equity	50,799,211	39,621,092	1,628,420	1,310,039
Net liabilities to capital ratio	1.23	1.71	1.23	1.71

There were no changes in the Group’s approach to capital management during the period.

29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

'000 RUR	**30 June 2010**	**31 December 2009**
Less than one year	139,807	195,312
Between one and five years	390,859	379,261
More than five years	1,182,929	1,176,826
	1,713,595	1,751,399

'000 USD	**30 June 2010**	**31 December 2009**
Less than one year	4,482	6,458
Between one and five years	12,529	12,540
More than five years	37,920	38,911
	54,931	57,909

The Group leases a number of land plots under operating leases. The leases typically vary from an initial period of four to forty nine years, with an option to renew the lease after that date. Lease payments are usually fixed.

For the production entities lease payments are expensed as incurred, while for the real estate construction entities lease payments are capitalised to the construction costs of the properties, located on the respective land plots. During the six months ended 30 June 2010 an amount of RUR 37,891 thousand / USD 1,260 thousand was recognised as an expense in the statement of comprehensive income in respect of non-cancellable operating leases. During the six months ended 30 June 2010 an amount of RUR 170,431 thousand / USD 5,668 thousand was capitalized to the construction cost of the properties, located on the respective land plots.

30 Commitments

At 30 June 2010, the Group was committed to purchase property, plant and equipment for approximately RUR 3,913,904 thousand / USD 125,464 thousand (31 December 2009: RUR 5,032,827 thousand / USD 166,407 thousand) net of VAT, including commitment to purchase equipment for a new cement plant for RUR 2,631,812 thousand / USD 84,365 thousand (31 December 2009: RUR 3,247,672 thousand / USD 107,382 thousand) and commitment to purchase equipment for a new brick-making plant for RUR 1,020,299 thousand / USD 32,707 thousand (31 December 2009: RUR 1,159,291 thousand / USD 38,331 thousand).

31 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

In April 2009 one of the Group subsidiaries entered into litigation with CERIC S.A. in Stockholm arbitration court. The amount under dispute excluding penalties comprised of RUR 1,624,648 thousand / USD 52,080 thousand (31 December 2009: RUR 1,845,969 thousand / USD 61,035 thousand), including the amount of prepayment to CERIC S.A. of RUR 944,572 thousand / USD 30,279 thousand (31 December 2009: RUR 1,073,249 thousand / USD 35,486 thousand) (RUR 830,017 thousand / USD 26,607 thousand at amortised cost). In response CERIC S.A. initiated counter-claim to the Group subsidiary for the amount of RUR 1,329,774 thousand / USD 42,627 thousand (31 December 2009: RUR 1,720,433 thousand / USD 56,885 thousand). It is probable that the Group will recover the amount of prepayment and will not incur liabilities under these litigations and no amount has been written off or provided in connection with the Group's obligation under these litigations.

Except for the arbitration above, other litigations include a number of small claims relating to purchases from domestic customers. Based on experience in resolving such claims, management believes that they will be settled without significant cost to the Group. Accordingly, no provision has been made for such amounts.

(c) Taxation contingencies

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

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

The Group companies entered into transactions involving other Group companies at prices which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules, but could be significant. Management has not made any provision because it believes there will be no outflow of funds relating to any such assessment.

(d) Environmental liabilities

The Group is engaged in dredging sand from the sea bed and quarrying sand in forested areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete.

The Group is engaged in crushed stone production and extraction of clay in ten areas covered by forests. According to existing legislation and the terms of licenses obtained by the Group there is a liability for the Group to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future based on discussions between the Group and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognised in the consolidated interim financial statements for expected expenses on restoration. It is planned that quarrying will be completed for the currently used ten areas in the years from 2010 to 2027.

32 Related party transactions

(a) Control relationships

The Company is controlled by Andrey Molchanov, who owes 9.09% of the voting shares directly, 53.08% of the voting shares through an affiliated company Streetlink ltd and 0.05% of the voting shares through an affiliated company ZAO “NPO Reconstruktsia”.

(b) Transactions with management and close family members

The management and their close family members control 10.74% of the voting shares of the Group. (31 December 2009: 13.65%).

(i) Management remuneration

Key management received the following remuneration during the period, which is included in personnel costs (refer to note 9):

	Six months ended 30 June			
	2010	**2009**	**2010**	**2009**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Salaries and bonuses	179,542	243,062	5,792	7,350

(ii) Other transactions

	Transaction value year ended		**Outstanding balance**		**Transaction value year ended**		**Outstanding balance**	
	30 June 2010	**30 June 2009**	**30 June 2010**	**31 December 2009**	**30 June 2010**	**30 June 2009**	**30 June 2010**	**31 December 2009**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Sale of goods and services provided to:	3,036	18,675	(310,449)	(292,816)	101	565	(9,952)	(9,682)
Purchase of goods and services from:	32	85	-	4,370	1	3	-	144
Loans received (included into unsecured other loans – refer to note 25) from	6,300	-	21,366	15,066	210	-	685	498
Loans given to related parties	305	125	4,591	12,485	10	4	147	413
Purchase of shares from	-	-	-	-	-	-	-	-
Sale of shares to:	-	-	-	-	-	-	-	-
Purchase of note from	-	-		-	-	-	-	-
Sales of note from	-	-	11,904	-	-	-	382	-

Loans to executive directors amounting to RUR 4,591 thousand /USD 147 thousand are included in “employee receivables”and “other receivables” (31 December 2009: RUR 12,485 thousand /USD 413 thousand) (refer to note 20). Interest of 8.5% - 13% p.a. was payable on these loans. The loans were expected to be repaid within 1-4 years.

As disclosed in note 23 (a) pursuant to the Securities Lending Agreement between Mr. Molchanov and Streetlink Limited dated 26 February 2010, Mr. Molchanov has loaned to Streetlink Limited 50,008,393 ordinary shares of the Company in order to allow Streetlink to sell GDRs in the Secondary Public Offering. As holder of the loaned shares on the record date for the open subscription, Streetlink Limited has agreed in the Underwriting Agreement to subscribe for 9,366,383 Committed Shares in the Open Subscription at the Preemption Share Price, the purchase of which it funded with the net proceeds from its sale of GDRs in the Offering. Streetlink Limited is expected to deliver thereafter to Mr. Molchanov the Committed Shares in satisfaction of its obligations under the Securities Lending Agreement.

As at 30 June 2010 The Group received from Streetlink Limited proceeds from issue net of cost of transactions in amount of RUR 11,891,828 thousand/ USD 387,113 thousand.

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

	Transaction value period ended		Outstanding balance		Transaction value period ended		Outstanding balance	
	30 June 2010	**30 June 2009**	**30 June 2010**	**31 December 2009**	**30 June 2010**	**30 June 2009**	**30 June 2010**	**31 December 2009**
	'000 RUR	**'000 RUR**	**'000 RUR**	**'000 RUR**	**'000 USD**	**'000 USD**	**'000 USD**	**'000 USD**
Sale of goods and services provided to:								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	6,779	460,794	(31,858)	11,281	225	13,935	(1,021)	373
Companies significantly influenced by the Group key management	32,143	13	879,240	937,241	1,069	-	28,185	30,989
	38,922	460,807	847,382	948,522	1,294	13,935	27,164	31,362

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(ii) Expenses

	Transaction value period ended		Outstanding balance		Transaction value period ended		Outstanding balance	
	30 June 2010	**30 June 2009**	**30 June 2010**	**31 December 2009**	**30 June 2010**	**30 June 2009**	**30 June 2010**	**31 December 2009**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Purchase of goods and services from:								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	17,958	102,902	100,686	87,880	597	3,112	3,228	2,906
Companies significantly influenced by the Group management	3,207	-	2,229	7,641	107	-	71	253
	21,165	102,902	102,915	95,521	704	3,112	3,299	3,159

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(iii) Loans

	Transaction value period ended		Outstanding balance		Transaction value period ended		Outstanding balance	
	30 June 2010	**30 June 2009**	**30 June 2010**	**31 December 2009**	**30 June 2010**	**30 June 2009**	**30 June 2010**	**31 December 2009**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Loans received (included into unsecured other loans – refer to note 25):								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	1,675,000	1,857,321	83,470	-	55,708	56,167	2,676	-
Companies significantly influenced by the Group management	-	-	-	25,472	-	-	-	842
Loans provided by A.Molchanov	1,509,281	-	89,281	-	50,196	-	2,862	-
	3,184,281	1,857,321	172,751	25,472	105,904	56,167	5,538	842
Loans given (included into other investments – originated loans category– refer to note 17):								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	-	(14,404)	(421)	(1,512)	-	(436)	(13)	(50)
Companies significantly influenced by the Group management	-	(50)	(611)	-	-	(2)	(20)	-
	-	(14,454)	(1,032)	(1,512)	-	(438)	(33)	(50)
	3,184,281	1,842,867	171,719	23,960	105,904	55,729	5,505	792

The loans from companies, significantly influenced by the Group management, and companies, controlled or significantly influenced by, or on behalf of, the Group’s ultimate beneficial owners, bear no interest and are repayable based on contractual terms.

The loans to companies, significantly influenced by the Group management, and companies, controlled, or significantly influenced by, or on behalf of, the Group’s ultimate beneficial owners bear no interest and are repayable based on contractual terms. No discounting of the loans has been performed at the balance sheet date due to the short maturity of loans received and given.

(iv) Other investments

	Transaction value period ended		**Outstanding balance**		**Transaction value period ended**		**Outstanding balance**	
	30 June 2010	**30 June 2009**	**30 June 2010**	**31 December 2009**	**30 June 2010**	**30 June 2009**	**30 June 2010**	**31 December 2009**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Non-current available-for-sale investments stated at cost (included into other investments – originated loans category– refer to note 17):								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	-	400	562	-	-	12	18	-
Companies significantly influenced by the Group management	-	-	3	481	-	-	-	16
	-	400	565	481	-	12	18	16

(v) Transactions with shares / promissory notes

Purchase of shares from

	Transaction value period ended		**Outstanding balance**		**Transaction value period ended**		**Outstanding balance**	
	30 June 2010	**30 June 2009**	**30 June 2010**	**31 December 2009**	**30 June 2010**	**30 June 2009**	**30 June 2010**	**31 December 2009**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	-	30,874	-	-	-	934	-	-
	-	30,874	-	-	-	934	-	-

33 Significant subsidiaries

Entity	Country of incorporation	Ownership/voting interest 30 June 2010	Ownership/voting interest 31 December 2009
OAO “Gatchinsky DSK”	Russia	100.00%	100.00%
JOINT-STOCK COMPANY “CONSTRUCTION CORPORATION “REVIVAL OF SAINT-PETERSBURG” (formerly OAO SKV SPb)	Russia	100.00%	100.00%
OOO “GDSK”	Russia	100.00%	100.00%
OAO “LSR”	Russia	100.00%	100.00%
OAO NPO “Keramika” (formerly ZAO NPO “Keramika”)	Russia	100.00%	100.00%
OAO “Granit-Kuznechnoye”	Russia	100.00%	100.00%
OAO “Rudas”	Russia	100.00%	100.00%
“Leningrad river port Open Joint-Stock Company”	Russia	100.00%	100.00%
Joint-Stock Company “Scanex”	Russia	100.00%	100.00%
ZAO “Vertikal”	Russia	100.00%	100.00%
OAO “PO “Barrikada”	Russia	100.00%	100.00%
ZAO “DSK “Blok”	Russia	100.00%	100.00%
OAO “UM-260” (formerly ZAO UM-260)	Russia	100.00%	100.00%
OAO “Obyedineniye 45”	Russia	100.00%	100.00%
ZAO “MSR” (formerly ZAO Mosstroyrekonstruktsia)	Russia	100.00%	100.00%
OOO “GATP-1” (formerly OAO “GATP-1”)	Russia	100.00%	100.00%
JSC "Pobeda LSR" (formerly ZAO “Pobeda LSR”)	Russia	100.00%	100.00%
OOO “Aeroc SPb”	Russia	100.00%	100.00%
“AEROC” SIA (formerly Aeroc Poribet SIA)	Latvia	100.00%	100.00%
Aeroc aktsiaselts	Estonia	100.00%	100.00%
LCC “Aeroc” ltd	Ukraine	100.00%	100.00%
Joint-Stock Company “Petrobeton”	Russia	100.00%	100.00%
OOO “Aeroc Kaliningrad”	Russia	100.00%	100.00%
UAB “Aeroc”	Lithuania	100.00%	100.00%
OOO “Osobnyak”	Russia	100.00%	100.00%
OOO “Kvartira LuxServis”	Russia	100.00%	100.00%
ZAO “Stroitelny trest № 28”	Russia	79.17%	79.17%
OOO “Stroitelny trest № 28”*	Russia	50.00%	50.00%
ZAO “Promyshlenny leasing” (formerly	Russia	100.00%	100.00%

Entity	Country of incorporation	Ownership/voting interest 30 June 2010	Ownership/voting interest 31 December 2009
OOO “Promyshlenny leasing”)			
OOO “Martynovka”	Russia	100.00%	100.00%
OAO “NKSM”	Russia	100.00%	100.00%
ZAO NPO “VSR”	Russia	80.00%	80.00%
OOO “SPb GDC “YUNA”	Russia	100.00%	100.00%
DNP “Alakul”**	Russia	-	-
“DNP “Penaty 2”**	Russia	-	-
ZAO “MSR-Butovo”	Russia	100.00%	100.00%
OAO “Zavod ZhBI-6”	Russia	57.70%	57.70%
OOO “GDSK Invest Primorsky” (formerly OOO “GDSK Iinvest-49”)	Russia	100.00%	100.00%
ZAO “Zarechye”	Russia	100.00%	100.00%
OOO “LenSpecSMO Promstroymontazh”	Russia	100.00%	100.00%
Limited Liability Company Smolniy District	Russia	100.00%	100.00%
OOO “VSMP” (formerly ZAO “ VSMP “)	Russia	100.00%	100.00%
OOO “BaltStroyKomplekt”	Russia	100.00%	100.00%
Aeroc International AS	Estonia	90.00%	90.00%
ZAO “Obyedineniye 45-M”	Russia	100.00%	100.00%
OOO “LSR-Invest”	Russia	100.00%	100.00%
ZAO “Chifko plus”	Russia	100.00%	100.00%
LSR Europe GmbH	Germany	100.00%	100.00%
Saargemunder Strabe Wohnbau Gmbh & Co. KG	Germany	70.00%	70.00%
Saargemunder Strabe Wohnbau Beteiligungs-GmbH	Germany	70.00%	70.00%
Max-Josephs-Hohe Immobilien und Projektentwicklungs GmbH	Germany	94.80%	94.80%
LSR Vermögensverwaltungs GmbH	Germany	85.00%	85.00%
Oefelestrasse Projektetnwicklungs GmbH & Co KG	Germany	85.00%	85.00%
Projektgesellschaft Bayerstr. 79 mbH	Germany	80.00%	80.00%
JSC “A Plus Estate”	Russia	100.00%	100.00%
ZAO “INGEOKOM S-Pb”	Russia	100.00%	100.00%
OAO “Stroicorporatciya”	Russia	100.00%	100.00%
OAO MTO “ARHPROEKT”	Russia	100.00%	100.00%
LLC “LSR - UKRAINE”	Ukraine	100.00%	100.00%
OOO “Velikan-XXI vek”	Russia	100.00%	100.00%
OAO “ZAVOD ELEKTRIK”	Russia	100.00%	100.00%
OAO “ZAVOD “STROIFARFOR”	Russia	100.00%	100.00%
OOO “BSK Invest-1”**	Russia	20.00%	20.00%
OOO “BSK Invest-2”**	Russia	20.00%	20.00%
OOO “BSK Invest-3”**	Russia	20.00%	20.00%

Entity	**Country of incorporation**	**Ownership/voting interest 30 June 2010**	**Ownership/voting interest 31 December 2009**
Limited Liability Company “Cement”	Russia	100.00%	100.00%
ZAO “Kazanskaya, 36”	Russia	100.00%	100.00%
OOO “Ozherel’evskaya keramika”	Russia	100.00%	100.00%
OOO “Okhtinskiy Bereg”	Russia	94.00%	94.00%
Joint-Stock Company “Parkon”	Russia	100.00%	100.00%
Lsr Group Ltd (formerly OOO LSR)	Russia	100.00%	100.00%
OOO “Ohta 25”	Russia	55.00%	55.00%
OOO Agentstvo “TRIADA”	Russia	100.00%	100.00%
OOO “Barrikada”	Russia	100.00%	100.00%
OOO “UK “LSR Ural” (former OOO “UK “NOVA GROUP”)	Russia	100.00%	100.00%
OOO “Promrezerv”	Russia	100.00%	100.00%
OAO “Betfor”	Russia	88.79%	92.65%
OOO “SMU NOVA-stroy”	Russia	100.00%	100.00%
OOO “PKU NOVA-StroyProekt”	Russia	100.00%	100.00%
ZAO “NOVA-stroy”	Russia	100.00%	100.00%
OOO “Granit-Invest”	Russia	100.00%	100.00%
OOO “Uralscheben”	Russia	100.00%	100.00%
JSC “Aeroc Obuchow”	Ukraine	97.36%	97.32%
OOO “Kentavr Management”	Russia	100.00%	100.00%
ZAO “Beton 45”	Russia	100.00%	100.00%
OOO “Vsevolozhskie Ugodia:”	Russia	99.99%	-
OOO “Rybkhoz”	Russia	99.99%	-
OOO “Karier Petrovskiy”	Russia	100.00%	-
Hiuki Holding LTD **	Cyprus	-	-

* The Group controls OOO “Stroitelny trest № 28” as it has the power to appoint or remove the General Director, which is the ultimate governing body of the entity, and control is exercised through this body

** These subsidiaries are special purpose entities (see policy in the note 3(a)(ii)) in which the Group has no direct controlling ownership or direct controlling voting interest.

34 Events subsequent to the balance sheet date

Financing events

In July 2010 one of the Group subsidiaries early repaid a revolving and non-revolving credit lines from OAO “Bank VTB Severo-Zapad” with a nominal value of RUR 1,735,862 thousand / USD 55,645 thousand.

In July 2010 one of the Group subsidiaries repaid overdraft in OAO “Bank VTB Severo-Zapad” with a nominal value of RUR 60,000 thousand / USD 1,923 thousand.

In August 2010 one of the Group subsidiaries early repaid a non-revolving credit lines in OAO “Sberbank” with a nominal value of RUR 229,500 thousand / USD 7,357 thousand.

In September 2010 the Group early repaid a non-revolving credit line in OAO “Sberbank” with a nominal value of RUR 637,500 thousand / USD 20,436 thousand.

In July 2010 one of the Group subsidiaries entered into a loan agreement with OAO “Bank VTB Severo-Zapad”. The total amount of revolving credit line granted is limited to RUR 1,700,000 thousand / USD 54,495 thousand. The loan is to be repaid no later than 12 July 2013.

In September 2010 the Group entered into a loan agreement with ZAO “Raiffeisen bank”. The total amount of non-revolving credit line granted is limited to RUR 700,000 thousand / USD 22,439 thousand. The loan is to be repaid no later than 03 September 2012.

In August 2010 the Group fully paid the sixth coupon payment of its Series 02 bonds totalling RUR 38,223 thousand / USD 1,225 thousand and the fourth coupon payment of its Series 02 bonds totalling RUR 201,960 thousand / USD 6,474 thousand.

Operating events

In September 2009 Mr. Andrey Molchanov sold 9.09% Direct Ordinary Shares of the Company to Streetlink Limited. As a result of the transaction his direct share in the Company decreased by 9.09% from 9.09% to 0%, the share of Streetlink Limited increased from 53.08% to 62.17%.

On 14 September 2010 the Group issued three-years bonds on domestic market. The total amount of the issue is RUR 2,000,000 thousand / USD 64,112 thousand. Coupon rate equals to 10.00%.

35 Supplementary disclosures

The following Group entities are included in Segments and Business unit disclosures:

Segment	Business unit	Entity
Construction	Construction	OAO “PO “Barrikada” OAO “Gatchinsky DSK” ZAO “DSK “Blok”
	Construction Moscow	ZAO “MSR” (formerly ZAO Mosstroyrekonstruktsia)
	Construction Ural	OAO "Betfor" OOO "SMU NOVA-stroy" OOO "PKU NOVA-StroyProekt"
Real Estate Development	Gated Communities	DNP “Alakul” “DNP “Penaty 2” ZAO “Zarechye” OOO “Osobnyak”
	Business Class and Mass Market Real Estate	ZAO “ZAVOD “STROIFARFOR” OAO “LSR” OAO “NPO Keramika” OOO “GDSK Invest Primorsky” (formerly OOO “GDSK Iinvest-49”) OOO “GDSK” OOO “Okhtinskiy Bereg”
	Real Estate in Western Europe	LSR Europe GmbH Max-Josephs-Hohe Immobilien-und Projektentwicklungs GmbH LSR Vermögensverwaltungs GmbH Oefelestrasse Projektetnwicklungs GmbH & Co KG Saargemunder Strabe Wohnbau Beteiligungs-GmbH Projektgesellschaft Bayerstr. 79 mbH Saargemunder Strabe Wohnbau Gmbh & Co. KG
	Real Estate Urals	OOO “Investproekt” OOO “Promrezerv” ZAO “NOVA-stroy”
	Real Estate in Moscow	ZAO “MSR” (formerly ZAO Mosstroyrekonstruktsia) OOO Agentstvo “TRIADA” OOO “Velikan-XXI vek” OOO “Kentavr Management” ZAO “MSR-Butovo”
	Elite Real Estate	ZAO “INGEOKOM S-Pb” ZAO NPO “Vyborgstroyrekonsruktsiya” OAO “ZAVOD ELEKTRIK” JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG" (formerly OAO SKV SPb) OAO “Stroicorporatciya” OOO “Martynovka” Limited Liability Company Smolniy District OOO “SPB GDC “YUNA” OOO “LenSpecSMO Promstroymontazh”
	Other	OOO “Kvartira LuxServis”

Segment	Business unit	Entity
Aggregates	Sand	OOO “Vsevolozhskoye SMP” "Leningrad river port Open Joint-Stock Company" OOO “Vsevolozhskie Ugodia” OOO “Rybkhoz” OAO “Rudas”
	Crushed Granite	OAO “Granit-Kuznechnoye” OOO “Karier Petrovskiy” OOO “Granit-Invest”
	Crushed Granite Ural	OOO “Uralscheben”
Building Materials	Other	OOO “BaltStroyKomplekt” OOO “Ohta 25” OOO “BSK Invest-1-3” ZAO “Vertikal”
	Ready-mix Concrete Saint-Petersburg	OAO “Obyedineniye 45”
	Aerated Concrete	UAB “Aeroc” Aeroc aktsiaselts (formerly Aeroc AS) Aeroc International AS “AEROC” SIA (formerly Aeroc Poribet SIA) Joint-Stock Company “Petrobeton” Joint-Stock Company "Scanex" OOO “Aeroc Kaliningrad” OOO “Aerok SPb JSC “Aeroc Obuchow” LCC “Aeroc” ltd (formerly Aeroc Ukraine)
	Reinforced Concrete Saint-Petersburg	OAO “NKSM” Joint-Stock Company "Parkon" OOO “Barrikada” OAO “PO “Barrikada”
	Reinforced& Ready-mix Concrete Moscow	OAO “Zavod ZhBI-6” ZAO “Beton 45” ZAO “Obyedineniye 45-M”
	Brick	Joint-Stock Company "Pobeda LSR" (formerly ZAO Pobeda LSR) OOO “Ozherel’evskaya keramika”
	Cement	ZAO “Chifko plus” Limited Liability Company “Cement”
Commercial Real Estate	Commercial Real Estate	JSC “A Plus Estate”
Construction Services	Transportation	OOO “GATP-1”
	Pile foundation and construction	ZAO “Stroitelny trest № 28” OOO “Stroitelny trest № 28”
	Tower Cranes	OAO “UM-260” (formerly ZAO UM-260)
Other Entities	Other entities	ZAO “Kazanskaya, 36” ZAO “Promyshlenny leasing” (formerly OOO “Promyshlenny leasing”) OJSC LSR Group OAO MTO “ARHPROEKT” Lsr Group Ltd (formerly OOO LSR) OOO “LSR-Invest” LLC “LSR - UKRAINE” Hiuki Holding LTD
	Other entities Ural	OOO “UK “LSR Ural”

Key financial performance indicators by business segment / business unit were as follows:

For the 6 months ended 30 June 2010 '000 RUR	**Revenue from external customers**	**Inter-group revenue**	**Total revenue**	**Operating profit (incl. management fee)**	**Depreciation/ Amortisation**	**EBITDA***
Brick	557,773	4,038	**561,811**	(107,966)	36,840	**(71,126)**
Reinforced Concrete SPb	850,520	54,467	**904,987**	(84,190)	81,820	**(2,370)**
Reinforced& Ready-mix Concrete Moscow	410,882	361,917	**772,799**	(106,196)	66,852	**(39,344)**
Ready-mix Concrete SPb	792,264	37,457	**829,721**	(56,726)	118,374	**61,648**
Aerated Concrete	672,989	16,783	**689,772**	(100,175)	112,098	**11,922**
Cement	525,701	253,842	**779,543**	(24,621)	17,950	**(6,671)**
Other	292,560	35,443	**328,003**	(10,074)	7,794	**(2,280)**
Eliminations	-	(195,998)	**(195,998)**	370	-	**370**
Building Materials	4,102,689	567,949	**4,670,638**	(489,578)	441,728	**(47,850)**
Construction	4,200,297	121,335	**4,321,632**	859,281	194,333	**1,053,614**
Construction Moscow	718,471	-	**718,471**	78,970	-	**78,970**
Construction Ural	273,271	234,619	**507,890**	(87,735)	107,020	**19,285**
Construction	5,192,039	355,954	**5,547,993**	850,516	301,353	**1,151,869**
Sand	738,312	81,090	**819,402**	215,035	119,664	**334,699**
Crushed Granite	411,158	202,302	**613,460**	(109,693)	94,983	**(14,710)**
Crushed Granite Ural	3,956	119	**4,075**	(38,541)	20,714	**(17,827)**
Eliminations	-	(24,221)	**(24,221)**	-	-	-
Aggregates	1,153,426	259,290	**1,412,716**	66,801	235,361	**302,162**
Tower Cranes	392,566	58,827	**451,393**	31,591	106,701	**138,292**
Transportation	1,856	95,361	**97,217**	(2,536)	23,738	**21,202**
Pile Foundation and Construction	112,687	27,633	**140,320**	(17,151)	15,506	**(1,645)**
Eliminations	-	(504)	**(504)**	-	-	-
Construction Services	507,109	181,317	**688,426**	11,904	145,945	**157,849**
Elite Real Estate	1,161,005	10	**1,161,015**	508,871	9,039	**517,910**
Business Class and Mass Market Real Estate	4,247,583	12,525	**4,260,108**	1,046,826	1,171	**1,047,997**
Real Estate Ural	238,887	1,059	**239,946**	59,333	518	**59,851**
Gated Communities	127,404	-	**127,404**	49,025	280	**49,305**
Real Estate in Moscow	-	-	**-**	(33,172)	3,867	**(29,305)**
Real Estate in Western Europe	151,799	-	**151,799**	1,719	200	**1,919**
Other	34,950	14,303	**49,253**	2,972	571	**3,543**
Eliminations	-	(2,491)	**(2,491)**	2,007	-	**2,007**
Real Estate Development	5,961,628	25,406	**5,987,034**	1,637,581	15,646	**1,653,227**
Commercial Real Estate	70,924	-	**70,924**	13,639	562	**14,201**
Other entities	9,390	-	**9,390**	-	53,821	**53,821**
Unallocated Expenses	122,532	-	**122,532**	(439,459)	-	**(439,459)**
Transportation revenue	596,972	-	**596,972**	-	-	-
Eliminations	-	(1,389,916)	**(1,389,916)**	77,507	-	**77,507**
Consolidated	17,716,709	-	**17,716,709**	1,728,911	1,194,416	**2,923,327**

**EBITDA= Operating Result + Depreciation/amortisation - Change in fair value of Investment Property+ impairment losses recognised during the reporting period*

For the 6 months ended 30 June 2010 '000 USD	**Revenue from external customers**	**Inter-group revenue**	**Total revenue**	**Operating profit (incl. management fee)**	**Depreciation/ Amortisation**	**EBITDA***
Brick	18,551	134	**18,685**	(3,591)	1,225	**(2,366)**
Reinforced Concrete SPb	28,287	1,811	**30,098**	(2,800)	2,721	**(79)**
Reinforced& Ready-mix Concrete Moscow	13,665	12,037	**25,702**	(3,532)	2,223	**(1,309)**
Ready-mix Concrete SPb	26,349	1,246	**27,595**	(1,887)	3,937	**2,050**
Aerated Concrete	22,383	558	**22,941**	(3,332)	3,728	**396**
Cement	17,484	8,442	**25,926**	(819)	597	**(222)**
Other	9,730	1,179	**10,909**	(335)	260	**(75)**
Eliminations	-	(6,518)	**(6,518)**	13	-	**13**
Building Materials	136,449	18,889	**155,338**	(16,283)	14,691	**(1,592)**
Construction	139,695	4,035	**143,730**	28,579	6,463	**35,042**
Construction Moscow	23,895	-	**23,895**	2,626	-	**2,626**
Construction Ural	9,089	7,803	**16,892**	(2,918)	3,560	**642**
Construction	172,679	11,838	**184,517**	28,287	10,023	**38,310**
Sand	24,555	2,697	**27,252**	7,152	3,980	**11,132**
Crushed Granite	13,674	6,728	**20,402**	(3,648)	3,159	**(489)**
Crushed Granite Ural	132	4	**136**	(1,282)	689	**(593)**
Eliminations	-	(805)	**(805)**	-	-	**-**
Aggregates	38,361	8,624	**46,985**	2,222	7,828	**10,050**
Tower Cranes	13,056	1,956	**15,012**	1,050	3,549	**4,599**
Transportation	62	3,172	**3,234**	(84)	789	**705**
Pile Foundation and Construction	3,748	919	**4,667**	(570)	516	**(54)**
Eliminations	-	(17)	**(17)**	-	-	**-**
Construction Services	16,866	6,030	**22,896**	396	4,854	**5,250**
Elite Real Estate	38,613	-	**38,613**	16,924	301	**17,225**
Business Class and Mass Market Real Estate	141,268	417	**141,685**	34,816	39	**34,855**
Real Estate Ural	7,945	35	**7,980**	1,973	17	**1,990**
Gated Communities	4,237	-	**4,237**	1,631	9	**1,640**
Real Estate in Moscow	-	-	**-**	(1,103)	129	**(974)**
Real Estate in Western Europe	5,049	-	**5,049**	57	7	**64**
Other	1,162	476	**1,638**	99	18	**117**
Eliminations	-	(83)	**(83)**	66	-	**66**
Real Estate Development	198,274	845	**199,119**	54,463	520	**54,983**
Commercial Real Estate	2,359	-	**2,359**	454	19	**473**
Other entities	312	-	**312**	-	1,791	**1,791**
Unallocated Expenses	4,075	-	**4,075**	(14,616)	-	**(14,616)**
Transportation revenue	19,854	-	**19,854**	-	-	**-**
Eliminations	-	(46,226)	**(46,226)**	2,578	-	**2,578**
Consolidated	589,229	-	**589,229**	57,501	39,726	**97,227**

**EBITDA= Operating Result + Depreciation / amortisation - Change in fair value of Investment Property- Impairment losses recognised during the reporting year*

For the 6 months ended 30 June 2009 ('000 RUR)	**Revenue from external customers**	**Inter-group revenue**	**Total revenue**	**Operating profit (incl. management fee**	**Depreciation/ Amortization**	**Change in fair value of investment property**	**EBITDA***
Brick	704,396	10,476	714,872	55,387	38,351	-	93,738
Reinforced Concrete SPb	917,459	87,692	1,005,151	(36,462)	95,051	-	58,589
Reinforced& Ready-mix Concrete Moscow	109,966	245,442	355,408	(52,302)	19,096	-	(33,206)
Ready-mix Concrete SPb	980,277	97,178	1,077,455	(203,216)	150,945	-	(52,271)
Aerated Concrete	759,370	15,758	775,128	(136,787)	112,580	-	(24,207)
Cement	476,109	331,974	808,083	(6,522)	9,340	-	2,818
Other	315,630	58,282	373,912	30,118	5,828	-	35,946
Eliminations	-	(587,319)	(587,319)	2,885	-	-	2,885
Building Materials	**4,263,207**	**259,483**	**4,522,690**	**(346,899)**	**431,191**	**-**	**84,292**
Sand	864,811	55,600	920,411	400,549	120,042	-	520,591
Crushed Granite	463,601	159,095	622,696	(22,304)	98,677	-	76,373
Crushed Granite Ural	8,273	1,072	9,345	45	18,297	-	18,342
Eliminations	-	(3,368)	(3,368)	-	-	-	-
Aggregates	**1,336,685**	**212,399**	**1,549,084**	**378,290**	**237,016**	**-**	**615,306**
Tower Cranes	488,944	76,221	565,165	185,987	109,398	-	295,385
Transportation	2,833	94,775	97,608	(6,200)	26,892	-	20,692
Pile Foundation and Construction	267,110	9,890	277,000	(43)	16,074	-	16,031
Eliminations	-	(355)	(355)	-	-	-	-
Construction Services	**758,887**	**180,531**	**939,418**	**179,744**	**152,364**	**-**	**332,108**
Elite Real Estate	3,240,257	25	3,240,282	(280,509)	11,390	(2,134,077)	1,864,958
Business Class and Mass Market Real Estate	4 ,513,316	2,491	4,515,807	1,476,014	1,140	-	1,477,154
Gated Communities	22,718	-	22,718	25,113	313	-	25,426
Real Estate in Moscow	-	-	-	(18,322)	4,172	-	(14,150)
Real Estate in Western Europe	123,445	-	123,445	(926)	176	-	(750)
Real Estate Ural	1,454,843	1,123	1,455,966	348,579	607	-	349,186
Other	33,993	27,749	61,742	6,419	624	-	7,043
Eliminations	-	(11,113)	(11,113)	(684)	-	-	(684)
Real Estate Development	**9,388,572**	**20,275**	**9,408,847**	**1,555,684**	**18,422**	**(2,134,077)**	**3,708,183**
Construction	3,840,559	222,365	4,062,924	713,189	156,408		869,597
Construction Ural	306,090	209,251	515,341	(152,381)	108,029		(44,352)
Construction	**4,146,649**	**431,616**	**4,578,265**	**560,808**	**264,437**	**-**	**825,245**
Commercial Real Estate	**76,764**	**1**	**76,765**	**42,087**	**772**	**-**	**42,859**
Other entities	**10,401**	**-**	**10,401**	**-**	**53,034**	**-**	**53,034**
Eliminations	-	(1,104,305)	(1,104,305)	270,839	-	-	270,839
Transportation revenue	493,715	-	493,715	-	-	-	-
Unallocated Expenses and income	110,114	-	110,114	(236,302)	-	-	(236,302)
Consolidated	**20,584,994**	**-**	**20,584,994**	**2,404,251**	**1,157,236**	**(2,134,077)**	**5,695,564**

**EBITDA= Operating Result + Depreciation/amortisation - Change in fair value of Investment Property+ impairment losses recognised during the reporting period*

For the 6 months ended 30 June 2009 ('000 USD)	Revenue from external customers	Inter-group revenue	Total revenue	Operating profit (incl. management fee)	Depreciation/ Amortization	Change in fair value of investment property	EBITDA*
Brick	21,301	317	21,618	1,675	1,160	-	2,835
Reinforced Concrete SPb	27,745	2,652	30,397	(1,103)	2,874	-	1,772
Reinforced& Ready-mix Concrete Moscow	3,326	7,422	10,748	(1,582)	577	-	(1,005)
Ready-mix Concrete SPb	29,643	2,939	32,582	(6,145)	4,565	-	(1,580)
Aerated Concrete	22,964	477	23,441	(4,137)	3,405	-	(732)
Cement	14,398	10,039	24,437	(197)	282	-	85
Other	9,546	1,762	11,308	911	176	-	1,087
Eliminations	-	(17,761)	(17,761)	87	-	-	87
Building Materials	**128,923**	**7,847**	**136,770**	**(10,491)**	**13,040**	**-**	**2,549**
Sand	26,153	1,681	27,834	12,113	3,630	-	15,743
Crushed Granite	14,019	4,811	18,830	(674)	2,984	-	2,310
Crushed Granite Ural	250	33	283	1	554	-	555
Eliminations	-	(102)	(102)	-	-	-	-
Aggregates	**40,422**	**6,423**	**46,845**	**11,440**	**7,168**	**-**	**18,608**
Tower Cranes	14,786	2,305	17,091	5,624	3,309	-	8,933
Transportation	86	2,866	2,952	(187)	813	-	626
Pile Foundation and Construction	8,077	299	8,376	(1)	486	-	485
Eliminations	-	(11)	(11)	-	-	-	-
Construction Services	**22,949**	**5,459**	**28,408**	**5,436**	**4,608**	**-**	**10,044**
Elite Real Estate	97,988	1	97,989	(8,483)	345	(64,536)	56,398
Business Class and Mass Market Real Estate	136,486	75	136,561	44,636	34	-	44,670
Gated Communities	687	-	687	759	10	-	769
Real Estate in Moscow	-	-	-	(554)	126	-	(428)
Real Estate in Western Europe	3,733	-	3,733	(28)	5	-	(23)
Real Estate Ural	43,996	34	44,030	10,542	18	-	10,560
Other	1,028	839	1,867	194	19	-	213
Eliminations	-	(336)	(336)	(21)	-	-	(21)
Real Estate Development	**283,918**	**613**	**284,531**	**47,045**	**557**	**(64,536)**	**112,138**
Construction	116,142	6,724	122,866	21,568	4,730	-	26,297
Construction Ural	9,256	6,328	15,584	(4,608)	3,267	-	(1,341)
Construction	**125,398**	**13,052**	**138,450**	**16,960**	**7,997**	**-**	**24,956**
Commercial Real Estate	**2,321**	**-**	**2,321**	**1,273**	**23**	**-**	**1,296**
Other entities	**315**	**-**	**315**	**-**	**1,604**	**-**	**1,604**
Eliminations	-	(33,394)	(33,394)	8,190	-	-	8,190
Transportation revenue	14,930	-	14,930	-	-	-	-
Unallocated Expenses and income	3,331	-	3,331	(7,146)	-	-	(7,146)
Consolidated	**622,507**	**-**	**622,507**	**72,707**	**34,996**	**(64,536)**	**172,239**

**EBITDA= Operating Result + Depreciation/amortisation - Change in fair value of Investment Property+ impairment losses recognised during the reporting period*