OAO Group of Companies PIK
Consolidated Financial Statements
for the year ended
31 December 2009

Contents

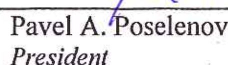
Consolidated Statement of Financial Position 3
Consolidated Statement of Comprehensive Income 4
Consolidated Statement of Changes in Equity 5
Consolidated Statement of Cash Flows 6
Notes to the Consolidated Financial Statements 7 - 59

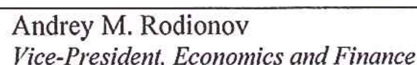
Independent Auditors' Report

Consolidated Statement of Financial Position

In million RUR	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	16	10,390	12,840
Intangible assets	17	22,072	27,455
Investments in equity accounted investees	18	3,460	3,522
Other investments	20	997	169
Deferred tax assets	21	86	71
Total non-current assets		**37,005**	**44,057**
Current assets			
Inventories	22	67,345	77,184
Other investments	20	872	4,223
Income tax receivable		87	519
Trade and other receivables	23	10,598	14,124
Cash and cash equivalents	24	3,417	3,153
Total current assets		**82,319**	**99,203**
Total assets		**119,324**	**143,260**
EQUITY AND LIABILITIES			
Equity	25		
Share capital		30,843	30,843
Additional paid-in capital		20,082	20,082
Treasury shares		-	(2,428)
Reserve resulting from additional share issue		(28,506)	(28,506)
Retained earnings		(14,540)	(1,011)
Total equity attributable to equity holders of the Company		**7,879**	**18,980**
Minority interest		555	978
Total equity		**8,434**	**19,958**
Non-current liabilities			
Loans and borrowings	26	22,121	8,393
Trade and other payables	27	1,128	1,527
Provisions		-	46
Deferred tax liabilities	21	5,858	6,135
Total non-current liabilities		**29,107**	**16,101**
Current liabilities			
Loans and borrowings	26	16,169	31,742
Trade and other payables	27	63,753	74,439
Provisions	28	609	894
Income tax payable		1,252	126
Total current liabilities		**81,783**	**107,201**
Total liabilities		**110,890**	**123,302**
Total equity and liabilities		**119,324**	**143,260**

These consolidated financial statements were approved by Management on 6 May 2010 and were signed on its behalf by:





Pavel A. Poselenov
President

Andrey M. Rodionov
Vice-President, Economics and Finance

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, consolidated financial statements set out on pages 7 to 59.

Consolidated Statement of Comprehensive Income

In million RUR	Note	2009	2008
Revenue	8	41,175	33,695
Cost of sales	9	(33,656)	(25,169)
Gross profit		**7,519**	**8,526**
Loss on disposal of subsidiaries and development rights, net	11	(1,272)	-
Distribution expenses	12	(477)	(974)
Administrative expenses	13	(3,890)	(5,540)
Impairment losses and reversal of impairment loss	19	(4,671)	(24,028)
Finance income	14	771	481
Finance costs	14	(9,754)	(7,933)
Share of loss of equity accounted investees, net of income tax		(41)	(75)
Loss before income tax		**(11,815)**	**(29,543)**
Income tax (expense)/benefit	15	(866)	1,277
Loss from continuing operations		**(12,681)**	**(28,266)**
Profit from discontinued operations, net of tax	6	1,193	85
Loss and total comprehensive income for the year		**(11,488)**	**(28,181)**
Attributable to:			
Owners of the Company		(11,115)	(27,961)
Minority interest		(373)	(220)
Total comprehensive loss for the year		**(11,488)**	**(28,181)**
Basic and diluted loss per share		(22.6) RUR	(57.0) RUR
Continuing operations			
Basic and diluted loss per share		(25.1) RUR	(57.2) RUR

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 59.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company						Minority interest	Total equity
In million RUR	**Share capital**	**Additional paid-in-capital**	**Reserve resulting from additional share issue**	**Treasury shares**	**Retained earnings**	**Subtotal**		
At 1 January 2008	**30,843**	**19,401**	**(28,506)**	**-**	**27,335**	**49,073**	**1,266**	**50,339**
Loss and total comprehensive income for the year	-	-	-	-	(27,961)	(27,961)	(220)	(28,181)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Transactions with shareholders, recorded directly in equity 25(e)(i) and 25(e)(ii)	-	681	-	-	(385)	296	-	296
Own shares acquired	-	-	-	(2,428)	-	(2,428)	-	(2,428)
	-	681	-	(2,428)	(385)	(2,132)	-	(2,132)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	(89)	(89)
Dilution of minority interest in a subsidiary	-	-	-	-	-	-	21	21
Total transactions with owners	-	681	-	(2,428)	(385)	(2,132)	(68)	(2,200)
At 1 January 2009	**30,843**	**20,082**	**(28,506)**	**(2,428)**	**(1,011)**	**18,980**	**978**	**19,958**
Loss and total comprehensive loss for the year	-	-	-	-	(11,115)	(11,115)	(373)	(11,488)
Own shares sold 25(b)	-	-	-	2,428	(2,204)	224	-	224
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Transactions with shareholders, recorded directly in equity 25(c)	-	-	-	-	(210)	(210)	-	(210)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	(61)	(61)
Dilution of minority interest in a subsidiary	-	-	-	-	-	-	11	11
Total transactions with owners	-	-	-	-	(210)	(210)	(50)	(260)
At 31 December 2009	**30,843**	**20,082**	**(28,506)**	**-**	**(14,540)**	**7,879**	**555**	**8,434**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 59.

Consolidated Statement of Cash Flows

	2009 mln RUR	2008 mln RUR
OPERATING ACTIVITIES		
Loss for the year	**(11,488)**	**(28,181)**
Adjustments for:		
Depreciation and amortisation	860	1,076
Impairment losses	4,671	24,028
Foreign exchange loss, net	642	2,941
(Gain)/loss on disposal of property, plant and equipment	(16)	80
Impairment loss on financial assets	2,147	2,547
Gain from disposal of development rights and subsidiaries	(43)	-
Share of loss of equity accounted investees	41	75
Interest expense, including penalties payable	6,588	2,303
Interest income	(400)	(481)
Income tax expense/(benefit)	866	(1,277)
Cash from operating activities before changes in working capital and provisions	**3,868**	**3,111**
Decrease/(increase) in inventories	7,075	(28,338)
Decrease in trade and other receivables	1,519	2,382
(Decrease)/increase in trade and other payables	(7,119)	35,106
Cash flows from operations before income taxes and interest paid	**5,343**	**12,261**
Income taxes paid	(218)	(925)
Interest paid	(3,937)	(3,165)
Net cash from operating activities	**1,188**	**8,171**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	26	522
Acquisition of other investments	-	(40)
Interest received	22	331
Acquisition of property, plant and equipment	(267)	(3,650)
Acquisition of development rights and other intangible assets	(223)	(17,657)
Acquisition of equity accounted investees	(2,208)	-
Acquisition of minority interests	(61)	(374)
Loans given	-	(3,084)
Proceeds from sale of minority interests and development rights	902	1,047
Consideration paid to acquire mortgage loans from related party bank	-	(2,380)
Proceeds from repayment of mortgage loans	486	1,569
Proceeds from repayment of loans given	565	1,439
Net cash used in investing activities	**(758)**	**(22,277)**
FINANCING ACTIVITIES		
Proceeds from borrowings	25,197	37,584
Repayment of borrowings	(25,202)	(35,590)
Repurchase of own shares	-	(2,428)
Proceeds from sale of own shares	224	-
Transactions with founding shareholders	(385)	681
Net cash (used in) /from financing activities	**(166)**	**247**
Net increase/(decrease) in cash and cash equivalents	264	(13,859)
Effect of exchange rate fluctuations on cash and cash equivalents	-	(34)
Cash and cash equivalents at beginning of year	3,153	17,046
Cash and cash equivalents at end of year (note 24)	**3,417**	**3,153**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 59.

1 Background

(a) Organisation and operations

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

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

The primary activities of the Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements. During 2009 and 2008 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

At 1 January 2009, the Company was able to be controlled by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the "Founding Shareholders") who collectively owned 74% of the voting shares of the Company.

In April 2009, Lacero Trading Limited, ultimately controlled by the Nafta Moskva Group, acquired a 25% stake in the Company from its Founding Shareholders.

As at 31 December 2009 the main shareholders of the Group are:

	31 December 2009	31 December 2008
Lacero Trading Limited (Nafta Moskva Group)	25%	-
Maritrade Investments Limited (Y.Zhukov)	14.36%	37%
Forienst Investments Limited (K.Pisarev)	14.36%	37%
Holborner Services Limited	10.66%	-
Others	35.62%	26%
	100%	100%

(b) 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 and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumption

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

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

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

- Note 8 *Revenue*
- Note 19 *Impairment;*
- Note 27 *Trade and other payables;*
- Note 28 *Provisions*; and
- Note 31 *Contingencies.*

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

- Note 19 *Impairment;*
- Note 27 *Trade and other payables* related to provision for costs to complete.

(e) Change in accounting policy

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments;
- presentation of financial statements.

(i) Determination and presentation of operating segments

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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.

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

(ii) Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(f) Reclassifications

In 2009 the Group modified its approach to the presentation of liabilities recognised in respect of the Group's obligations to complete construction of certain objects. The obligations are assumed by the Group entities in exchange of the rights for construction of bigger housing projects primarily in Moscow and the Moscow region and are considered as a component of the costs of such projects. Previously, such liabilities were presented net of the costs already incurred by the Group in construction of such projects. Since the obligations are considered settled only when the Group completes the construction of the whole project and the Group's counterparty formally accepts the results, Management decided to present the costs incurred and the liabilities assumed on a gross basis, since such presentation results in the consolidated financial statements providing more relevant information to the users. This change has resulted in an increase in inventories and related accounts payable as at 31 December 2008 by RUR 933 million.

3 Significant accounting policies

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

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

(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. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. 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.

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

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

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

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

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.

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 the 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. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see 3(h)(i)) and foreign currency differences on available-for-sale equity instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

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

(iii) Share capital

Ordinary shares

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

Repurchase of share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(e) Intangible assets

(i) Goodwill

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

Acquisitions of subsidiaries prior to 1 January 2004

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

Acquisitions of subsidiaries on or after 1 January 2004

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

Acquisitions of minority interests

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

Subsequent measurement

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

(ii) Development rights

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

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

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

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

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

(f) Leased assets

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

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

(g) Inventories

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

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

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

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project, including finance costs. Where real estate property is not being actively developed, net rental and finance costs are taken to the profit or loss.

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

- for no consideration delivers certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc.;
- constructs certain infrastructure facilities in exchange of the ability to develop the properties, e.g., electricity, sewage systems, roads;
- constructs certain objects public where the expected compensation from the buyers will not reimburse the Group with the costs to be incurred, e.g., certain parking spaces;
- enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

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

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

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

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

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, 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 than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against 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 profit or loss.

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 fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to 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 profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, 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"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units 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 is allocated to groups of cash generated 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 cash generating unit 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 profit or loss. 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 an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(i) 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, employee benefit assets, investment property and biological assets, 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 or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(j) Employee benefits

(i) Contributions to state pension fund

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

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

(k) Provisions

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

(i) Tax provisions

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

(ii) Onerous contracts

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

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

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

(iii) Warranties

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

(l) Revenues

(i) Revenue from sale of real estate properties

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

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

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

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

(ii) Revenue from construction services

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

There are certain construction projects, where one Group entity participates as an investor/co-investor while a third party acts as a developer. At the same time other Group entities may provide construction services to the developer. Revenues from construction services relating to such projects are treated as an intercompany transaction and eliminated against related costs – refer note 2(e) for a description of the change in accounting policy.

(iii) Other sales

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

(m) Other expenses

(i) Lease payments

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

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

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

(ii) Social expenditure

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

(n) Finance income and costs

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

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

(o) Income tax

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

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

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

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

(p) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period. Comparative information related to discontinued operations is not amended in the balance sheet.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held. The Group has not issued any potential ordinary shares that may have a dilutive effect on EPS.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 2(e)(i)).

(s) 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 these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity.

- Amendments to IFRS 5 *Non-current Assets held for Sale and Discontinued Operations* which came into effect on 1 July 2009. The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary. The amendment is not expected to have an impact on Group's consolidated financial statements.

- 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 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.

- 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 2010. 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 for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

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

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

(b) Intangible assets

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

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

(c) Inventories

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

(d) Investments in equity and debt securities

The fair value of financial assets held-to-maturity and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

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

(f) Non-derivative financial liabilities

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

5 Segment reporting

The Group has 3 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. Performance is measured based on segment gross profit, as included in internal management reports. For each of the strategic business units, the chief operating decision maker (CODM) reviews internal management reports on at least a quarterly basis.

- *Real estate development*: The implementation of developments planned and undertaken by the Group, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing real estate projects to potential buyers.
- *Industrial segment*: Contracting activities, construction of concrete panels, production and assembly of prefabricated panel buildings, non-metal mining operations
- *Maintenance:* Real estate maintenance services provided to tenants.

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

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

Management information reviewed by the CEO for allocation of resources and management of performance of the operating segments does not include a measure of total assets of the reportable segments. Management decisions and assessment of the segments' performance are made on the measure of segment profit or loss. Therefore, the information about the segments' assets and liabilities is not disclosed. The allocation of assets between the reportable segments in the below disclosure is made on the IFRS-based information which is not part of management information provided to CEO.

(i) Segments profit and losses

	Real estate development		Industrial segment		Maintenance		Total	
mln RUR	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
External revenues	30,684	22,905	10,202	10,718	1,017	790	41,903	34,413
Inter-segment revenue	465	456	14,897	36,206	108	189	15,470	36,851
Total revenue for reportable segments	31,149	23,361	25,099	46,924	1,125	979	57,373	71,264
Interest income	1,379	1,341	-	1	43	26	1,422	1,368
Interest expense	(5,685)	(3,434)	(97)	(101)	(205)	(46)	(5,987)	(3,581)
Depreciation and amortisation	(104)	(89)	(465)	(466)	(5)	(6)	(574)	(561)
Reportable segment profit before income tax	1,401	(2,255)	519	496	138	84	2,058	(1,675)
Capital expenditure	-	21	405	1,252	55	9	460	1,282
External segment assets	102,219	126,241	14,017	15,091	512	428	116,748	141,760
Unallocated items							2,576	1,500
Total assets							119,324	143,260

(ii) Geographical information

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

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

	Revenues	
	2009 mln RUR	**2008 mln RUR**
Moscow	21,941	15,720
Moscow region	14,354	14,722
Other regions	5,608	3,971
	41,903	**34,413**

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

	2009 mln RUR	**2008 mln RUR**
Revenues		
Total revenue for reportable segments	57,373	71,264
Revenue of entities not included in reportable segments	158	481
Elimination of inter-segment revenue	(15,470)	(36,851)
Elimination of discontinued operations	(825)	(1,940)
Other	(61)	741
Consolidated revenue	**41,175**	**33,695**
Profit or loss		
Segment profit before tax	2,058	(1,675)
Elimination of inter-segment profits	(20)	221
Elimination of discontinued operations	(925)	(1,749)
Impairment of property, plant and equipment, intangible assets, inventories	(4,124)	(24,028)
Timing differences relating to recognition of costs	(4,500)	620
Impairment losses on financial assets	(481)	(2,941)
Provision for doubtful accounts	(1,666)	-
Penalties and fines	(2,021)	-
Other expenses	(136)	9
Consolidated loss from continuing operations before income tax	**(11,815)**	**(29,543)**

(iv) Major customers

In 2009 and 2008 no customer represented more than 10% of the Group's total revenue. In 2008, revenue from one customer of the Group's Sale of Real Estate represented approximately 20% of the Group's total revenue.

6 Discontinued operation

On 24 August 2009 the Group sold its mining operations included in the Industrial segment which were not a discontinued operation or classified as held for sale as at 31 December 2008 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this entity on 26 June 2009 to repay certain obligations.

	2009 mln RUR	2008 mln RUR
Results of discontinued operation		
Revenue	825	1,940
Expenses	(925)	(1,749)
Results from operating activities	(100)	191
Income tax	(20)	(106)
Results from operating activities, net of income tax	(120)	85
Gain on sale of discontinued operation	1,313	-
Profit for the year	1,193	85
Basic earnings per share (RUR)	0.2	0.0

The profit from discontinued operation of RUR 1,193 million (2008: RUR 85 million) is attributable to the owners of the Group. Of the loss from continuing operations of RUR 12,681 million (2008: RUR 28,266 million), an amount of RUR 12,308 million is attributable to the owners of the Group (2008: RUR 28,046 million).

	2009 mln RUR	2008 mln RUR
Cash flows from/(used in) discontinued operation		
Net cash from/(used in) operating activities	35	(7)
Net cash (used in)/from financing activities	(52)	21
Net cash from discontinued operation	**17**	**14**

Effect of disposal on the financial position of the Group:

	Note	2009 mln RUR
Property, plant and equipment	16	(726)
Inventories	22	(473)
Trade and other receivables	23	(178)
Cash and cash equivalents	24	(15)
Deferred tax liabilities	21	38
Trade and other payables	27	590
Net assets and liabilities		(764)
Consideration received, satisfied in cash		871
Consideration received, satisfied in other financial assets		1,206
Total consideration received		2,077
Cash and cash equivalents disposed of		(15)

7 Acquisition of subsidiaries and minority interest

(a) Acquisitions of subsidiaries

There were no significant acquisitions of controlling interests in businesses in 2009 and 2008.

During 2008, the Group acquired interests in entities in which there were no integrated sets of activities conducted and assets are managed for the purpose of providing a return to investors. Such acquisitions were accounted for as purchases of assets – refer note 17(b).

(b) Acquisition of minority interest

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

The transaction had the following effect:

	2009 mln RUR
Balance of the loan receivable before impairment	201
Impairment of financial asset recogniseised	(140)
Balance of the loan after impairment	61
Carrying amount of minority interest	(61)
Net effect on equity	-

In February 2008 the Group partially exercised its option to acquire an additional 25% interest in the Storm Properties Group by acquiring additional 4.33% stake in the subsidiary for a consideration of RUR 189 million. The acquisition of the minority share resulted in additional goodwill amounting to RUR 115 million.

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

8 Revenue

	2009 mln RUR	**2008 mln RUR**
Revenues from sale of apartments	30,740	23,230
Revenues from construction services	7,164	5,485
Revenues from sale of construction materials and other sales	3,271	4,980
	41,175	**33,695**

In 2009 the Group completed 35 buildings with a saleable area of 470 thousand square meters (2008: 37 buildings with a saleable area of 409 thousand square meters and 5 underground garages with 909 parking spaces, respectively). Of the buildings completed in 2009, the Group sold 404 thousand square meters (2008: 307 thousand square meters and 257 parking spaces). In addition, approximately 88 thousand square meters were sold in 2009 in buildings completed in earlier periods (2008: 71 thousand square meters).

The Group has recognised revenue of RUR 23,364 million (2008: RUR 22,823 million) for the sale of apartments. Customers have the legal right to cancel the transaction up to the date of entering into final purchase agreements. Based on past experience, the percentage of transactions being reversed at the request of customers from the date when the sale is recognised is significantly lower than 1%. The Group has, therefore, recognised revenue in full amount without recognising any provision for returns. Had the actual returns been at a level of 1%, revenue for the year ended 31 December 2009 would have decreased by approximately RUR 234 million (2008: RUR 228 million).

In 2008 and 2009 the Group initiated a series of transactions with the Group's suppliers aimed at settling the balances of trade payables with apartments. During 2009 the revenues from sale of apartments in exchange for goods and services received amounted to RUR 7,376 million (2008: RUR 407 million).

Construction services in the amount of RUR 3,884 million (2008: RUR 9,363 million) were provided to developers of buildings where the Group participates as a co-investor.

9 Cost of sales

	2009 mln RUR	2008 mln RUR
Cost of construction services	25,386	17,289
Salaries and wages	2,318	3,855
Materials	985	2,656
Overhead expenses	4,526	767
Depreciation	441	602
	33,656	**25,169**

10 Personnel costs

	2009 mln RUR	2008 mln RUR
Salaries and wages	4,466	6,837
Social charges	664	1,001
	5,130	**7,838**

11 Gains and losses on disposal of subsidiaries and development rights

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

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

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

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

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

The disposals had the following effect on the financial statements:

In million RUR	OOO Rostov-kapstroy	Moreliabay Investments Ltd.	OOO Lasteya Art	Land plot in Saint Petersburg	Avtorita Holdings Ltd.	Others	Total
Development rights	-	(2,752)	-	(2,055)	-	(21)	(4,828)
Property, plant and equipment	-	-	-	-	(629)	(95)	(724)
Inventories	(926)	-	(404)	-	-	-	(1,330)
Trade and other receivables	-	(117)	-	-	(178)	-	(178)
Trade accounts payable	857	-	-	-	-	1	741
Loans payable	-	1,752	-	-	591	-	2,343
Net identifiable assets	**(69)**	**(1,117)**	**(404)**	**(2,055)**	**(216)**	**(115)**	**(3,976)**
Consideration received/receivable	151	0.04	274	2,164	0.04	115	2,704
Net gain/(loss) on disposal	**82**	**(1,117)**	**(130)**	**109**	**(216)**	**-**	**(1,272)**

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

12 Distribution expenses

	2009 mln RUR	2008 mln RUR
Advertising expenses	152	674
Wages and salaries	185	167
Other	140	133
	477	**974**

13 Administrative expenses

	2009 mln RUR	2008 mln RUR
Wages and salaries	2,627	3,816
Professional and other services	436	574
Depreciation	316	268
Other administrative expenses	511	882
	3,890	**5,540**

14 Finance income and costs

	2009 mln RUR	2008 mln RUR
Finance income		
Interest income	400	481
Other financial income	371	-
	771	**481**
Finance costs		
Interest expense	(4,567)	(2,303)
Penalties and fines related to loans' late repayment	(2,398)	-
Foreign exchange losses	(642)	(2,941)
Impairment losses on financial assets	(481)	(2,547)
Provision for doubtful accounts	(1,666)	(127)
Loss on disposal of available-for-sale financial assets	-	(15)
	(9,754)	**(7,933)**

In addition to the borrowing costs recognised in the profit or loss, borrowing costs of RUR 630 million (2008: RUR 1,192 million) have been capitalised as part of the construction work in progress intended for sale.

15 Income tax (expense)/benefit

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

	2009 mln RUR	2008 mln RUR
Current tax expense		
Current year	(1,460)	(313)
Tax provision reversed (recognised), net (note 28)	318	(262)
	(1,142)	(575)
Deferred tax credit		
Origination and reversal of temporary differences	276	640
Effect of change in the tax rate	-	1,212
	276	1,852
	(866)	**1,277**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%).

Reconciliation of effective tax rate:

	2009 mln RUR	%	2008 mln RUR	%
Loss before income tax, continuing operations	(11,815)	100	(29,543)	100
Income tax benefit at applicable tax rate	2,363	(20)	7,090	24
Effect of unrecognised deferred tax assets	(1,616)	14	(5,808)	(20)
Non-deductible expenses	(1,956)	17	(1,123)	(4)
Effect of the change in the tax rate	-	-	1,212	4
Tax provisions, net of reversals	318	(3)	(262)	(1)
Effect of income taxed at lower rates	25	-	168	1
	(866)	7	1,277	4

16 Property, plant and equipment

mln RUR	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2008	7,146	4,011	1,939	1,380	14,476
Additions	1,295	93	305	1,957	3,650
Disposals	(88)	(300)	(184)	(276)	(848)
Transfers	502	292	266	(1,060)	-
At 31 December 2008	**8,855**	**4,096**	**2,326**	**2,001**	**17,278**
Additions	14	3	1	552	570
Disposals	(69)	(322)	(194)	(29)	(614)
Disposal of subsidiaries (note 11)	(334)	(672)	(854)	(19)	(1,879)
Transfers	2,086	23	45	(2,154)	-
At 31 December 2009	**10,552**	**3,128**	**1,324**	**351**	**15,355**
Accumulated depreciation and impairment losses					
At 1 January 2008	(458)	(1,105)	(357)	-	(1,920)
Impairment losses	(1,469)	(199)	(125)	-	(1,793)
Depreciation charge	(287)	(450)	(234)	-	(971)
Disposals	15	129	102	-	246
At 31 December 2008	**(2,199)**	**(1,625)**	**(614)**	**-**	**(4,438)**
Impairment losses (see note 19(a))	(423)	(52)	(24)	-	(499)
Depreciation charge	(291)	(335)	(192)	-	(818)
Disposals	5	263	93	-	361
Disposal of subsidiaries (note 11)	74	255	100	-	429
At 31 December 2009	**(2,834)**	**(1,494)**	**(637)**	**-**	**(4,965)**
Net book value					
At 1 January 2008	**6,688**	**2,906**	**1,582**	**1,380**	**12,556**
At 31 December 2008	**6,656**	**2,471**	**1,712**	**2,001**	**12,840**
At 31 December 2009	**7,718**	**1,634**	**687**	**351**	**10,390**

(a) Determination of deemed cost as at 1 January 2004

Management commissioned an independent appraiser to determine the deemed cost of property, plant and equipment, other than construction in progress, of Group entities as at 1 January 2004 in order to determine its deemed cost on the date of the Group's adoption of IFRSs. In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of these values. The results of cash flow testing did not result in adjustments to the fair values determined on the basis of depreciated replacement cost.

(b) Security

At 31 December 2009 property, plant and equipment with a carrying value of RUR 1,253 million (2008: RUR 732 million) was pledged to secure bank loans (refer note 26).

(c) Leased plant and machinery

During the years ended 31 December 2009 and 2008 the Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2009 the net book value

of leased plant and machinery was RUR 35 million (31 December 2008: RUR 270 million). The leased equipment secures lease obligations.

(d) Construction in progress

At 31 December 2009 the balance of construction in progress includes prepayments made by the Group for acquisition of property, plant and equipment.

(e) Depreciation expense

Depreciation expense of RUR 441 million has been charged to cost of goods sold, RUR 5 million to distribution expenses, RUR 316 million to administrative expense and RUR 56 million to expenses classified as discontinued operations (2008: RUR 602 million, RUR 5 million, RUR 268 million and RUR 96 million, accordingly).

17 Intangible assets

mln RUR	Goodwill	Development rights	Other intangible assets	Total
Cost				
At 1 January 2008	3,007	17,786	424	21,217
Acquisitions through business combinations	285	-	-	285
Additions	-	25,497	216	25,713
Impairment losses	(3,292)	-	-	(3,292)
Reclassification into construction work-in-progress	-	(793)	-	(793)
At 31 December 2008	-	42,490	640	43,130
Additions	-	2,007	1	2,008
Disposals and adjustments	-	(5,325)	-	(5,325)
Reclassification into construction work-in-progress	-	(144)	-	(144)
At 31 December 2009	-	39,028	641	39,669
Accumulated amortisation and impairment losses				
At 1 January 2008	-	-	(4)	(4)
Amortisation charge	-	-	(105)	(105)
Impairment losses (note 19(c))	-	(15,247)	(319)	(15,566)
At 31 December 2008	-	(15,247)	(428)	(15,675)
Impairment losses (note 19(c))	-	(3,040)	-	(3,040)
Reversal of impairment	-	845	-	845
Impairment provision related to disposed assets	-	315	-	315
Amortisation charge	-	-	(42)	(42)
At 31 December 2009	-	(17,127)	(470)	(17,597)
Net book value				
At 1 January 2008	**3,007**	**17,786**	**420**	**21,213**
At 31 December 2008	**-**	**27,243**	**212**	**27,455**
At 31 December 2009	**-**	**21,901**	**171**	**22,072**

(a) Goodwill

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

	2008 mln RUR
OAO DSK-3	1,890
Storm Properties Limited	707
OOO Foton GBI and OOO Foton ABZ	299
OAO 480 KGI	274
Goodwill attributable to other subsidiaries	122
	3,292
Less impairment losses	(3,292)
	-

(b) Development rights

As at 31 December 2009 and 2008 the Group's portfolio of development rights comprised of the following items:

Subsidiary	Location of land plot	2009 mln RUR	2008 mln RUR
OAO Krasnopresnensky Sakharorafinadny Zavod	Moscow, Center (KSRZ)	8,071	8,071
OOO Status Land	Moscow region, South-West, Kommunarka	8,985	8,952
OAO Kuskovskiy Khimicheskiy Zavod	Moscow, South-East (KHZ)	5,154	5,226
OOO RusBusinessInvest/OOO Maks Ltd	Yaroslavl (Frunzenskiy and Dzerzhinskiy districts)	2,191	2,986
OOO Waystone	Moscow, South, Kashirskoye	2,491	1,995
OOO Izh Stroi	Republic of Udmurtia, Izhevsk	1,836	1,836
ZAO Zavod Gazstroymash	Moscow, South, Varshavkoye	1,146	1,126
ZAO Zavod Krasniy Vostok	Moscow, South-east, Shelkovskoye	1,030	1,030
OOO PIK Perm	Perm, Bakharevka	1,118	1,007
OOO Mayak	Moscow, South-west, Kievskoe	832	-
OOO Priz/OOO Rash	Kaliningrad region, Svetlogorsk	996	995
OOO Alanteya	Moscow, South, Michurinskiy	665	665
OOO Semigor	Krasnodar region, Novorossisk	883	650
OOO Rostovskoye More (*)	Rostov region	186	368
OOO DSK StroyKonstrukciya 2	Moscow Region, North-East	189	189
OOO Proekt V	Moscow region, North-West (North West Towers)	-	3,067
ZAO Neva Invest	Saint Petersburg, Vasilevskiy Ostrov	-	2,069
Others entities		3,255	2,258
		39,028	**42,490**
Less provision for impairment		(17,127)	(15,247)
		21,901	**27,243**

(*) In 2009 the Group partially cancelled the purchase agreement of a piece of land in the project and decreased the related liability of RUR 182 million.

Investments in development rights are made mostly through acquisitions of shares in subsidiaries which own or rent on a long-term basis certain land plots. The Group intends to obtain permissions required for further development of the sites. The subsidiaries do not have any other significant assets, liabilities, revenues and profits or losses as at and for the year ended 31 December 2009. Accordingly, the consideration paid by the Group to acquire the subsidiaries was accounted as the acquisition of interests in land rights under development rights.

Major acquisitions of development rights in 2008-2009 through acquisition of legal entities were as follows:

Subsidiary	**Location of land plot**	**Date**	**Shareholding acquired**	**Net sellable area, million square meters**	**Primary type of development**	**Consideration paid, RUR mln**
Acquisitions in 2008						
OOO Status land	Moscow, South-west	Jan-2008	80%	1	Residential	7,165
Blakestone Limited, Cyprus(*)	Moscow, West, KSRZ	Dec-2008	50%	0.5/0.1	Commercial/ Residential	8,071
ZAO Neva Invest	St-Petersburg	Jul-2008	20%	0.2	Residential	2,069
OOO Rusbusinessinvest and OOO Maks Ltd	Yaroslavl	Feb-2008	100%	0.9	Residential	2,986
OOO Izhstroy	Izhevsk, Udmurtia	Jun-2008	100%	1.8	Residential	1,836
OOO PIK Region Perm	Perm	Apr-2008	35%	0.35	Residential	1,007
OOO Alanteya	Moscow, South	Nov-2008	50%	0.02	Hotel	665
OOO Pulkovo Estate	St.-Petersburg	Apr-2008	100%	0.05	Commercial	521
	Other land plots					1,177
						25,497
Acquisitions in 2009						
OOO Mayak	Moscow, South-west, Kievskoe	Mar-2009	100%	0.2	Commercial	832
						832

(*) In 2008 the Group acquired an additional 51% interest in this project for a consideration of RUR 5,395 million, increasing the Group's share in the project from 49% to 100%. As at 1 January 2008, the Group's 49% interest in the shares of ZAO Gorodskoe Razvitye was classified as an equity accounted investee – refer note 18.

(c) Other intangible assets

The balance of other intangible assets includes promotion and development fees of RUR 317 million acquired as part of the acquisition of Storm Properties Limited in 2007. The promotion and development fees were provided for in full following the tests for impairment as at 31 December 2008.

18 Investments in equity accounted investees

The Group has the following investments in equity accounted investees, net of impairment:

	Country	Voting and effective	2009 mln RUR	2008 mln RUR
ZAO Park-City Investments/ OOO KRPT (Project Park City)	Russia	33%	3,460	3,501
			3,460	3,501

As disclosed in note 17(b), in 2008 the Group acquired a controlling interest in project KSRZ, therefore the investment in equity accounted investee was reclassified to development rights.

In November 2008, the Group acquired a 50% interest, in addition to a 25% interest held prior to the transaction, in a Cyprus-based subsidiary which owned a share in the project Park City for a consideration of RUR 2,882 million. The transaction increased the effective ownership in the project from 25% to 33% - see note 17(b).

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

As of December 2009, the recoverable amount was determined for the following assets:

- property, plant and equipment;
- development rights;
- investments in equity accounted investees;
- inventories.

(a) Property, plant and equipment

The Group reviewed the carrying amounts of its property, plant and equipment and concluded that there are indicators that assets may be impaired as at 31 December 2009. Therefore, the Group estimated the recoverable amounts of the respective cash generating units.

The values assigned to the key assumptions represent management's assessment of future trends in the construction industry and are based on both external sources and internal sources (historical data).

(i) Pre-fabricated panel manufacturing

This group includes assets of OAO DSK-3, OAO DSK-2, OAO 480 KGI, OAO 100 KGI, OOO StroyInvest, OOO NSS, OOO Zavod ZBI StroyIndustriya. The following key assumptions were used to determine the value in use:

- The recoverable amount represents value in use as determined by discounting the future cash flows generated from the continuing use of the assets;
- The cash flows were projected based on actual operating results for 2009, and the five-year business plan with adjustments for intra-group pricing; cash flows beyond the five-year period have been extrapolated for periods representing the remaining useful lives of major assets of 16 to 19 years;
- Plants capacity utilisation is projected at 18% to 100% (2008: 33% to 86%);
- A nominal, pre-tax discount rate of 25% (2008: 25%) for RUR denominated cash flows was applied in determining the recoverable amount of the plants.

The above estimates are particularly sensitive to the following assumptions:

- A 10% decrease in the utilisation of the plants would result in an additional impairment loss of RUR 694 million;

- A 1% increase in the discount rate from 25% to 26% would result in an additional impairment loss of RUR 67 million.

(ii) Administrative building

The recoverable amount of the administrative building used by the Group's headquarters was determined by estimating future cash flows from rental income. The following key assumptions were used to determine the value in use:

- The rent was estimated at RUR 0.032 million (2008: RUR 0.033 million) per square meter per year for the 10-year period;
- Operating expenses were estimated at 1.5% of rental income (2008: 1.5%);
- A capitalisation rate of 9.8% (2008: 9.8%) was applied in arriving at the estimated sales price at the end of the 10-year period;
- A pre-tax real discount rate of 15.6% (2008: 15.6%) was applied in discounting the net cash inflows.

(iii) Yacht used for representative purposes

The recoverable amount of the yacht was determined at fair market value on the basis of recent transactions for similar assets.

(b) Goodwill and other intangible assets acquired as part of business combination

For the purposes of impairment testing, goodwill was allocated to the Group's cash generating units, which primarily comprise production plants or development companies. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

(c) Development rights

The Group reviewed its portfolio of the development rights to determine whether the assets are impaired.

In the absence of the market transactions for sale and purchase of similar assets, Management used future cash flow techniques to estimate the recoverable amounts of the development rights.

Cash flows were estimated based on the business plans for each project approved by management. The following key assumptions were used in determining the value in use:

- Cash flows were projected for each individually significant project;
- Sales prices for the apartments are based on market prices effective in December 2009 for similar properties;
- The margins for projects are based on the Group's historical data for completion of similar properties and vary from 2% to 43% (2008: 10% to 53%);
- The projects are expected to commence during the period from 2011 to 2015;
- The Group will start to receive sales proceeds 1.5 years after the commencement of a project; the Group will collect all sales proceeds one year after a project is complete;
- A real pre-tax discount rate of 21.4% (2008: 21.4%) for RUR-based cash flows was applied in determining recoverable amounts.

The above estimates are particularly sensitive to the following assumptions:

- A one-year's delay in projected cash flows would result in an additional impairment loss of RUR 6,271 million;

- An increase of the discount rate by 10% from 21.4% to 23.5% would result in an additional impairment loss of RUR 5,122 million.

(d) Equity accounted investees

The Group's investment in equity accounted investees includes the Group's share in the project Park City. The carrying amount of the project was tested for impairment using the same assumptions applied for testing development rights disclosed above.

The estimates used in determining net realisable value are particularly sensitive to the following assumptions:

- A one-year's delay in projected cash flows would result in an additional write down of RUR 735 million;
- An increase of the discount rate by 10% from 19% to 21% would result in additional write down of RUR 683 million.

(e) Inventories

As disclosed in note 22, as at 31 December 2009, the Group postponed commencement of construction works on a number of construction projects for more than a year. The net realisable value of such projects was determined by reference to future cash flows using similar assumptions to those applied for testing development rights – refer note (c), except that a real discount rate of 19% (2008: 19%) was applied in determining net realisable value.

The estimates used in determining net realisable value are particularly sensitive to the following assumptions:

- A one-year's delay in projected cash flows would result in an additional inventory write down of RUR 580 million;
- An increase of the discount rate by 10% from 19% to 21% would result in additional inventory write down of RUR 331 million.

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

(f) Results of impairment tests and inventory write downs

		31 December 2009			**31 December 2008**		
	Note	Carrying value **mln RUR**	Impairment / write down **mln RUR**	Balance after impairment **mln RUR**	Carrying value **mln RUR**	Impairment / write down **mln RUR**	Balance after impairment **mln RUR**
Property, plant and equipment	16	12,682	(2,292)	10,390	14,633	(1,793)	12,840
Goodwill and promote and development fees		317	(317)	-	3,611	(3,611)	-
Development rights	17	39,028	(17,127)	21,901	42,490	(15,247)	27,243
Inventory	22	72,699	(5,354)	67,345	12,850	(3,377)	9,473
		124,726	**(25,090)**	**99,636**	**73,584**	**(24,028)**	**49,556**

(g) Impairment losses \ reversals of impairment

	Note	2009 mln RUR	2008 mln RUR
Property, plant and equipment	16	(499)	(1,793)
Goodwill and promote and development fees		-	(3,611)
Development rights impairment	17	(3,040)	(15,247)
Development rights reversal	17	845	-
Inventory	22	(1,977)	(3,377)
		(4,671)	**(24,028)**

20 Other investments

	2009 mln RUR	2008 mln RUR
Non-current		
Available-for-sale equity investments	182	181
Mortgage loans	37	119
Loans receivable and promissory notes receivable from related parties	1,029	-
Interest receivable related to loans receivable from related parties	133	-
Other unsecured loans and promissory notes receivable from third parties	94	43
	1,475	343
Less provision	(478)	(174)
	997	**169**

	2009 mln RUR	2008 mln RUR
Current		
Unsecured loans receivable from equity accounted investee	488	342
Other unsecured loans and promissory notes receivable from third parties	298	1,020
Mortgage loans	190	692
Interest receivable	75	298
Unsecured loan from a related parties	27	126
Unsecured loans receivable from related parties (RUR denominated, 10-11% per annum)	-	1,052
Unsecured loan from a third party	-	2,838
Others	-	208
	1,078	6,576
Less provision	(206)	(2,353)
	872	4,223

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

mln RUR	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	7	130	(359)	(765)	(352)	(635)
Investments	17	-	-	(60)	17	(60)
Intangible assets	7	-	(60)	(61)	(53)	(61)
Inventories	1,330	955	(289)	(318)	1,041	637
Trade and other receivables	341	292	(2)	(162)	339	130
Loans and borrowings	-	16	-	-	-	16
Trade and other payables	219	40	(7,078)	(6,811)	(6,859)	(6,771)
Tax loss carry-forwards	95	680	-	-	95	680
Tax assets/(liabilities)	2,016	2,113	(7,788)	(8,177)	(5,772)	(6,064)
Set off of tax	(1,930)	(2,042)	1,930	2,042	-	-
Net tax assets/(liabilities)	86	71	(5,858)	(6,135)	(5,772)	(6,064)

(b) Unrecognised deferred tax assets

Deferred tax assets of RUR 7,157 million (31 December 2008: RUR 5,808 million) have not been recognised in respect of the deductible temporary differences. The assets have not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Tax losses expire in 2018.

(c) Unrecognised deferred tax liabilities

As at 31 December 2009 and 2008 there were no unrecognised deferred tax liabilities related to investments in subsidiaries since the tax value of the investments in subsidiaries exceeded the net assets of the respective subsidiaries.

(d) Movement in temporary differences during the year

mln RUR	1 January 2009	Recognised in income	Changes due to disposal of subsidiaries	31 December 2009
Property, plant and equipment	(635)	267	16	(352)
Investments	(60)	77	-	17
Intangible assets	(61)	8	-	(53)
Inventories	637	404	-	1,041
Trade and other receivables	130	209	-	339
Loans and borrowings	16	(16)	-	-
Trade and other payables	(6,771)	(88)	-	(6,859)
Tax loss carry-forwards	680	(585)	-	95
	(6,064)	**276**	**16**	**(5,772)**

mln RUR	1 January 2008	Recognised in income	Changes due to disposal of subsidiaries	Effect of change on tax rate	31 December 2008
Property, plant and equipment	(915)	175	(22)	127	(635)
Investments	10	(82)	-	12	(60)
Intangible assets	(42)	(31)	-	12	(61)
Inventories	392	373	-	(128)	637
Trade and other receivables	(761)	917	-	(26)	130
Loans and borrowings	50	(31)	-	(3)	16
Trade and other payables	(6,639)	(1,486)	-	1,354	(6,771)
Tax loss carry-forwards	11	805	-	(136)	680
	(7,894)	**640**	**(22)**	**1,212**	**(6,064)**

22 Inventories

	2009 mln RUR	2008 mln RUR
Construction work in progress, intended for sale	35,694	40,528
Prepayments for real estate property intended for sale	25,834	28,254
Raw materials and consumables	1,118	1,599
Work in progress	757	1,679
Finished goods and goods for resale	3,942	5,124
	67,345	**77,184**
Write down	(5,354)	(3,377)

At 31 December 2009 and 2008 the balances of construction work in progress and finished goods include the cost of development rights in respect of which the construction process commenced before the respective dates.

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

At 31 December 2009, inventory with a carrying value of RUR 1,842 million (2008: RUR 2,020 million) was pledged to secure bank loans (refer note 26).

23 Trade and other receivables

	2009 mln RUR	2008 mln RUR
Trade accounts receivable	6,996	8,572
Advances paid	1,688	2,290
Taxes receivable	1,385	1,263
Others	529	1,999
	10,598	**14,124**
Impairment losses	(1,430)	(288)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

24 Cash and cash equivalents

	2009 mln RUR	2008 mln RUR
Petty cash	1	3
Bank balances, RUR denominated	3,390	3,047
Bank balances, USD denominated	26	103
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	3,417	3,153

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

25 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2009	Ordinary shares 2008
Authorised shares	489,970,384	856,260,384
Par value	RUR 62.5	RUR 62.5
On issue at beginning of year	489,970,384	493,260,384
Acquisition of treasury shares in January 2008	-	(3,290,000)
Sale of treasury shares in September 2009	3,290,000	-
On issue at end of year, fully paid	493,260,384	489,970,384

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

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

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

(b) Reserve for own shares

In January 2008 the Group acquired 3,290,000 ordinary shares of the Company for a total consideration of RUR 2,428 million (or RUR 738 per share). The Group planned to use these shares for share-based compensation arrangements for top management.

In September 2009 these shares were sold to a third party for a consideration of RUR 224 million (or RUR 68 per share).

(c) Fair value adjustment of loan issued to related party

As at 31 December 2008 the Group had a balance of a short-term related party loan amounting to RUR 1,030 million with an expected maturity in December 2009. The loan is RUR denominated and bore interest of 11%. In May 2009 the terms of the loan were substantially modified so that the outstanding balance and the interest accrued became payable in May 2012, and a fixed interest rate of 15% applied. The change in the terms resulted in a decrease of the net present value of the cash flows under the new terms by more than 10% as compared to the carrying amount. Therefore, the transaction was accounted for as an extinguishment of the old debt instrument with a loss of RUR 210 million. The loss was recognised directly in equity since the transaction is conducted with a company related to a Founding Shareholder.

(d) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2009 the Company had a retained loss of RUR 18,553 million (2008: loss RUR 17,325 million).

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

(e) Additional paid-in capital

(i) Acquisition of shares in subsidiaries

In April 2008 the Group received contributions from the Founding Shareholders in the amount of RUR 681 million compensating the Group for the costs incurred in 2007 for acquisition of legal ownership over the shares in certain subsidiaries of the Group. The contribution was recognised as an increase in additional paid-in capital in 2008.

(ii) Fees for guarantee arrangements

In 2008 the Group recognised a liability of RUR 385 million with a corresponding charge to retained earnings, to the entities controlled by the Founding Shareholders in exchange for the entities pledging their shares in the capital of the Company to secure a bank loan received by the Group. As at 31 December 2009, the liability has been paid in full.

(f) Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares. The following is a reconciliation of the weighted average number of shares:

In thousands of shares	**2009**	**2008**
Issued shares at 1 January	489,970	493,260
Effect of shares acquired in January 2008	-	(3,016)
Effect of shares sold in September 2009	823	-
Weighted average number of shares for the year ended 31 December	**490,793**	**490,244**

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 29.

	2009 mln RUR	**2008 mln RUR**
Non-current		
Secured bank loans	20,148	8,321
Unsecured bank loans	1,900	-
Unsecured loans from third parties	73	61
Finance lease liabilities	-	11
	22,121	**8,393**
Current		
Secured bank loans	10,891	20,477
Unsecured bank loans	3,024	7,744
Unsecured loans from third parties	997	1,856
Unsecured loans from related parties	-	463
Secured loans from third parties	-	866
Current portion of finance lease liability	2	76
Interest payable	561	260
Penalties payable	694	-
	16,169	**31,742**
	38,290	**40,135**

As at 31 December 2009 the following assets secured bank loans:

- property, plant and equipment with a carrying value of RUR 1,253 million (2008: RUR 732 million);
- inventory with a carrying value of RUR 1,842 million (2008: RUR 2,020 million);
- development rights with a carrying value of RUR 897 million (2008: RUR 2,752 million);
- investment rights for residential and commercial real estate with a total saleable area of 1,393 thousand square meters in Moscow and the Moscow Region and 17 thousand square meters in other regions (31 December 2008: 1,714 thousand square meters and nil, respectively);
- shares of the following subsidiaries which comprise a substantial part of the Group:

	2009		2008	
	Number of shares	% of share capital	Number of shares	% of share capital
OAO DSK-2	51,950,334	98	51,950,334	98
OAO DSK-3	1,747,081	81	1,747,081	81
OAO 480 KGI	1,556,430	100		
OAO KHZ	1,454,600	92	1,454,600	92
OAO 160 DSK	813,087	50	406,541	25
Avtorita Holdings Ltd	-	-	50,000	100
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	170,000	100	42,501	25
ZAO TP Red East	40,126	100	37,317	93
OAO 100 KGI	10,016	77		
ZAO Stroybusinesscenter	10,000	100	10,000	100
ZAO Podmoskovye 160 DSK	5,811	63	5,811	63
ZAO Monetchik	100	100	100	100
ZAO PIK Zapad	110	100	110	100
OOO NSS	-	100	-	100
OOO StroyInvest	-	100	-	100
OOO Semigor	-	100	-	100
OOO Status Land	-	100	-	100
OOO Kholdingovaya Kompanya Upravlenie Experimentalnoy Zastroyki Novokurkino	-	100	-	100

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

31 December 2009

mln RUR	Total	Overdue	Under 1 year	1 - 5 years
Secured bank loans				
RUR - fixed at above 10%	20,298	1,304	-	18,994
USD - fixed at 6% and below	10,741	9,587	-	1,154
Unsecured bank loans				
RUR - fixed at 14%	1,900	-	-	1,900
USD - fixed at 10.8% - 18%	3,024	3,024	-	-
Unsecured loans from third parties				
RUR - fixed at 0%	51	-	51	-
RUR - fixed at 0.1% - 10%	744	-	671	73
RUR - fixed at 10.1% - 18.5%	275	-	275	-
Interest payable	561	-	561	-
Penalties payable	694	-	694	-
Finance lease liabilities (RUR)	2	-	2	-
	38,290	**13,915**	**2,254**	**22,121**

31 December 2008 **mln RUR**	**Total**	**Under 1 year**	**1 - 5 years**
Secured bank loans			
RUR - fixed at 8% - 10%	13,991	6,875	7,116
RUR - fixed at above 10%	62	62	-
USD - fixed at 8% and below	14,745	13,540	1,205
Unsecured bank loans			
RUR - fixed at 9% - 12%	4,366	4,366	-
USD - fixed at 5% - 12%	3,378	3,378	-
Secured loans from third parties			
RUR - fixed at 12%	866	866	-
Unsecured loans from third parties			
RUR - fixed at 0%	299	298	1
RUR - fixed at 0.1% - 10%	662	659	3
RUR - fixed at 11% - 18,5%	743	743	-
RUR - fixed at 20% - 29%	146	146	-
USD - fixed at 3% - 12%	67	10	57
Unsecured loans from related parties			
RUR - fixed at 0%	169	169	-
USD - fixed at 10%	294	294	-
Interest payable	260	260	
Finance lease liabilities (RUR)	87	76	11
	40,135	**31,742**	**8,393**

In November 2009, the Group has successfully completed the restructuring process with main lenders which agreed to defer the repayment of loans amounting approximately to RUR 18,336 million to the period from 2011 to 2014.

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, and cross-default provisions. Covenant breaches generally permit lenders to demand early repayment of principal and interest. As at 31 December 2009 the Group breached the following financial covenants in various loan agreements: debt to EBITDA, EBITDA to interest expense, debt to equity ratio and net debt to EBITDA.

27 Trade and other payables

	2009 **mln RUR**	**2008** **mln RUR**
Non-current		
Accounts payable for construction works and other trade payables	1,117	1,419
Other liabilities	11	108
	1,128	**1,527**
Current		
Advances from customers	25,563	33,964
Accounts payable for construction works and other trade payables	16,306	15,433
Provision for construction costs to complete	10,895	9,815
Accounts payable for acquisition of development rights	2,487	6,580
Other taxes payable	6,852	5,216
Other payables	1,650	3,431
	63,753	**74,439**

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

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

28 Provisions

The provision of RUR 609 million primarily consists of a provision for tax exposures in respect of income tax of RUR 537 million and other taxes of RUR 72 million (31 December 2008: income tax of RUR 855 million and other taxes of RUR 39 million). The provision includes penalties and has not been subject to discounting.

In 2009 the Group reversed tax provision amounting RUR 651 million recognised in prior periods and accrued additional provisions of RUR 366 million.

29 Financial instruments

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

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

(b) Credit risk

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

(i) Sale of apartments to individuals

The Group is not significantly exposed to credit risk in connection with sales of apartments to individuals as such sales are significantly only on a prepayment basis.

(ii) Trade receivables from organisations

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. These provide for penalties in the event of late payment. The Group's review includes external ratings, when available, and in some cases bank references.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a governmental agency or commercial organisation, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(iii) Other investments

The Group has established a formal procedure in relation to investments in other loans and equity securities available-for-sale. The procedure includes organisation of working groups which conclude on the feasibility of a potential investment. The working groups consist of representatives of major management bodies of the Group. The groups study legal, financial and economic implications of any suggested investment.

(iv) Guarantees

The Group's policy is to provide financial guarantees only to the Group's subsidiaries and related parties.

Exposure to credit risk

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

	Carrying amount	
mln RUR	**2009**	**2008**
Available-for-sale financial assets	182	181
Loans and receivables	9,896	17,309
Cash and cash equivalents	3,417	3,153
	13,495	**20,643**

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

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

	Carrying amount	
mln RUR	**2009**	**2008**
State agencies	183	-
Receivables for services provided	3,108	5,098
Entities with significant state share in equity	3,705	3,474
	6,996	**8,572**

As at 31 December 2008, the Group does not have significant concentration of risk in relation to trade in other receivables.

Impairment losses

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

mln RUR	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	6,859	(478)	15,009	(2,514)
Past due 0-30 days	-	-	-	-
Past due 31-120 days	1,078	(206)	13	(13)
More than one year	1,430	(1,430)	288	(288)
	9,367	**(2,114)**	**15,310**	**(2,815)**

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

mln RUR	2009	2008
Balance at beginning of the year	2,815	139
Increase during the year	2,148	2,676
Amounts written off against financial assets	(2,849)	-
Balance at end of the year	**2,114**	**2,815**

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

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

(c) Liquidity risk

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

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

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. As stated in note 26 the Group has breached covenants in many of its loan agreements as at 31 December 2009. Therefore, the lenders have the right to claim for the repayments before the contracted maturities. Where covenants are in breach as at 31 December 2009, the loans are presented as payable within 6 months after the reporting period end in the table below.

2009 **mln RUR**	**Average interest rate** **Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Secured bank loans	10-18%	10-18%	3,012	7,879	1,157	5,766	13,225	31,039
Finance lease liabilities	-	16-25%	-	2	-	-	-	2
Unsecured bank loans	10-18%	10-18%	3,024	-	1,900	-	-	4,924
Trade and other payables			31,338	-	1,128	-	-	32,466
Interest payable			561	-	-	-	-	561
Unsecured loans from third parties			997	-	73	-	-	1,070
Penalties payable			694	-	-	-	-	694
			39,626	**7,881**	**4,258**	**5,766**	**13,225**	**70,756**

2008 **mln RUR**	**Average interest rate** **Contra-ctual**	**Effec-tive**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Secured bank loans	8-10%	8-10%	11,455	9,022	5,379	2,942	-	28,798
Finance lease liabilities	-	16-25%	48	28	11	-	-	87
Unsecured bank loans	6-12%	6-12%	7,598	146	-	-	-	7,744
Trade and other payables			35,259	-	1,527	-	-	36,786
Unsecured loans from third parties			1,856	-	61	-	-	1,917
Interest payable			260	-	-	-	-	260
			56,476	**9,196**	**6,978**	**2,942**	**-**	**75,592**

(d) Market risk

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

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(i) Currency risk

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

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

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

Exposure to currency risk

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

mln RUR	USD-denominated 2009	USD-denominated 2008
Cash	26	103
Short-term investments	-	1,217
Receivables	75	53
Trade payables	(237)	(11)
Other payables	(206)	(575)
Promissory notes	(6)	(2,812)
Loans and borrowings	(13,825)	(18,484)
	(14,173)	**(20,509)**

The RUR/USD exchange rates at 31 December 2009 and 31 December 2008 were 30.24 and 29.38 respectively. The average RUR/USD rates for the year were 31.73 and 24.84, respectively.

Sensitivity analysis

A 20% strengthening of the RUR against the USD at 31 December 2009 and 31 December 2008 would have increased equity and profit by RUR 2,834 million and RUR 4,102 million respectively. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2008.

A 20% weakening of the RUR against the above currencies at 31 December 2009 and 31 December 2008 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

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

Profile

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

	Carrying amount 2009 mln RUR	Carrying amount 2008 mln RUR
Fixed rate instruments		
Financial assets	2,371	6,738
Financial liabilities	(38,290)	(40,135)
	(35,919)	**(33,397)**

Fair value sensitivity analysis for fixed rate instruments

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

(e) Fair values versus carrying amounts

At 31 December 2009 and 31 December 2008, the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4. Inputs for the valuation of the available-for-sale financial assets are not based on observable market data.

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

mln RUR	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Loans and receivables	9,896	9,690	17,309	17,298
Available-for-sale financial assets	182	182	181	181
Cash and cash equivalents	3,417	3,417	3,153	3,153
Financial liabilities measured at amortised cost	38,290	35,635	40,135	39,128
	51,785	**48,294**	**60,778**	**59,760**

(f) Capital management

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

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

The Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 35.

During 2008 and 2009 the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

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

30 Commitments

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

During 2009 and 2008 the Group entered into a number of co-investment contracts, where payments have not been made in full, and contracts to provide construction services. However, significant funds were attracted from individuals through pre-sale agreements to finance the projects. Therefore, the Group has contractual obligations to complete the buildings within normal operating cycle of development. As at 31 December 2009 commitments under these contracts totalled approximately RUR 129,838 million (2008: RUR 135,285 million). These payments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

(b) Commitments to acquire property, plant and equipment

At 31 December 2009 and 2008 the Group had no contractual commitments to acquire property, plant and equipment.

31 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured certain professional risks in relation to quality of construction works. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

The Group does not have insurance in respect of any force majeure circumstances, which may arise in relation to constructed buildings in the period after the sales have been recognised until the time when ownership rights are registered with the customer. The risk of damage in case of force majeure circumstances in these periods of time is borne by the Group.

Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets and other circumstances could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in various claims and legal proceedings relating to supply and service contracts. The amount of RUR 1,507 million related to accounts payable is claimed at the end of the 2009 (2008: RUR 1,526 million). Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results.

(c) Taxation contingencies

Taxation system

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

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

Tax compliance of the Group's suppliers

The Group entered into transactions with various suppliers in which it did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing tax authorities' practice, if these entities' tax compliance is challenged by the tax authorities as not being in full conformity with the applicable tax legislation, this may result in additional tax risks for the Group. Should these suppliers be successfully challenged, the Group may become liable to additional tax payments, although

management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments. Management of the Group believes that it is not practicable to estimate the financial effect of potential tax liabilities, which ultimately could be imposed on the Group due to transactions with suppliers. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

If the cases described above were successfully challenged by the Russian tax authorities, the additional payments could become due together with penalties, ranging from 20% - 40% of the amount of underpaid taxes, and late-payment interest. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

(d) Warranties and guarantees for work performed

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

(e) Financial guarantees

As at 31 December 2009 the Group had not provided any significant financial guarantees to entities outside the Group.

32 Related party transactions

(a) Control relationships

At 1 January 2009 the Company was able to be controlled by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the "Founding Shareholders") who collectively owned 74% of the voting shares of the Company through Cyprus based shareholder structures.

In April 2009, Lacero Trading Limited, ultimately controlled by the Nafta Moskva Group, acquired a 25% stake in the Company from its Founding Shareholders. As at 31 December 2009 the interest of the Founding Shareholders amounted to approximately 29%. At both reporting dates there were no immediate or ultimate parent companies.

(i) Management remuneration

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

	2009 mln RUR	2008 mln RUR
Salaries and bonuses	543	403
Contributions to State pension fund	7	8
	550	411

(ii) Other transactions

As at 31 December 2009 an interest-bearing loan to an executive director amounting to RUR 15 million (2008: RUR 15 million) was recognised in other investments.

During 2005 an executive director purchased from the Group residential property in a building accepted in 2007 for a consideration of RUR 20 million, the amount was paid in May 2009.

In April 2009 an executive director purchased from the Group residential property and a parking lot in building which had not been completed as at 31 December 2009 for a consideration of RUR 40 million. The advance payment received of RUR 30 million is included in advances from customers as at 31 December 2009.

(b) Transactions with other related parties

The Group's other related party transactions, which are with entities controlled by the founding shareholders of the Group, are disclosed below.

(i) Sale of assets

In July 2009 the Group sold an aircraft to an entity controlled by the Founding Shareholders for nil consideration (refer note 11).

In December 2009 the Group sold construction project to develop high-end residential property to a related party for a total consideration of RUR 660 million (refer note 11).

(ii) Loans receivable from related parties

At 31 December 2009 the Group had an outstanding interest-bearing loan (15% per annum) receivable from a related party amounting to RUR 951 million, including interest receivable of RUR 133 million (2008: RUR 1,195 million, including interest receivable of RUR 167 million). The loan matures in May 2012 (refer note 20).

During 2009 the Group received interest income on loans issued to related parties of RUR 142 million (2008: RUR 128 million)

(iii) Loans payable to related parties

Outstanding loans payable to related parties as at 31 December 2009 and 31 December 2008 are disclosed in note 26.

(iv) Accounts receivable from related parties

During 2009 the Group rendered transportation services to a related party for a commission of RUR 3 million (2008: RUR 4 million).

During 2007 the Group sold its shares in Bank ZhilFinance to a related party controlled by the Founding Shareholders, as at 31 December 2009 the outstanding balance of accounts receivable from this transaction amounting to RUR 11 million (31 December 2008: RUR 464 million).

(v) Accounts payable to related parties

During 2009, the Group participated as a contractor in construction contracts with a related party and the outstanding balance of accounts payable from these transactions as at 31 December 2009 amounted to RUR 909 million (31 December 2008: RUR 2,839 million).

At 31 December 2009 the Group had promissory notes payable to related parties of RUR 40 million (31 December 2008: RUR 40 million).

(vi) Transactions with Bank ZhilFinance, controlled by the Founding Shareholders

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

	2009		**2008**	
In million RUR	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Loans received during the period	240	-	249	-
Loans repaid during the period	196	-	234	-

The loans from Bank ZhilFinance bear interest of 14% - 15% per annum and are repayable upon demand.

In 2008 the Group acquired a mortgage loan portfolio from Bank ZhilFinance for a consideration of RUR 2,376 million. The mortgage loans have been provided by the bank to third party individuals who entered into preliminary agreements with the Group to acquire flats. The loans are secured by the underlying flats. The loans are primarily RUR denominated and bear interest of 13.5% to 16% per annum. The balance of loans of RUR 227 million as at 31 December 2009 (31 December 2008: RUR 811 million) is included in other investments.

As at 31 December 2009 the Group's cash deposits at Bank ZhilFinance amounted to RUR 1,369 million (31 December 2008: RUR 2,149 million).

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

Starting from 2005, the Group provided loans and made prepayments to ZAO Park-City Investments, an equity accounted investee, to finance the development of a land plot in the centre of Moscow. During 2009, the Group issued loans of RUR 78 million to this company. The loans as at 31 December 2009 amounted to RUR 458 million, after impairment of RUR 101 million (31 December 2008: RUR 481 million, no impairment recognised).

(viii) Transactions with PSG Osnova controlled by the Founding Shareholders

Transactions related to insurance contracts

During 2009 the Group paid RUR 47 million (31 December 2008: RUR 23 million) to PSG Osnova under a property insurance contract. Accounts payable to PSG Osnova as at 31 December 2009 amounted to RUR 2 million (31 December 2008: RUR 15 million).

Sale of other assets

In March 2009 PSG Osnova purchased from the Group non-residential property completed in 2008 for consideration of RUR 116 million. The transaction resulted in a net loss of RUR 74 million.

Advances received

In March 2009 PSG Osnova entered into a contract to acquire from the Group non-residential and residential property, included in the closing balance of property, plant and equipment, for a consideration of RUR 67 million. As at 31 December 2009 the title for the property was not transferred to PSG Osnova. The consideration received is included in advances from customers. The transaction resulted in net loss of RUR 10 million to be incurred upon transmission of the title for the property.

(c) Pricing policy

Transactions with related parties are not necessarily based on market prices.

33 Significant subsidiaries

As of 31 December 2009 the Group controlled 130 legal entities (31 December 2008: 170). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The following is a list of the most significant subsidiaries:

		Effective ownership		Voting rights	
	Country of incorporation	2009	2008	2009	2008
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%
OAO DSK-2	Russia	98%	98%	98%	98%
OAO DSK-3	Russia	87%	87%	87%	87%
OOO PIK-Development	Russia	100%	100%	100%	100%
OOO PIK-Invest	Russia	100%	100%	100%	100%
OAO 100 KGI	Russia	92%	92%	92%	92%
OOO MFS-PIK	Russia	100%	100%	100%	100%
OOO TD Osnova	Russia	100%	100%	100%	100%
OOO PIK-Nerud	Russia	0%	100%	0%	100%
Viniso Investments Limited	Cyprus	75%	75%	75%	75%
OAO 480 KGI	Russia	100%	100%	100%	100%
Sturm Properties Limited	Cyprus	54%	54%	54%	54%

34 Events subsequent to the balance sheet date

Restructuring arrangements completed after the balance sheet date

After the balance sheet date the Group agreed to reschedule settlement of loans and borrowings in the total amount of RUR 12,146 million payable in 2012-2015.

The Group has also substantially completed negotiation for a new credit facility with Sberbank for an amount of RUR 12,000 million payable in 2014.

Penalties for non-execution of construction contracts

On 31 December 2009 a number of investment contracts with local authorities to develop residential property in the Moscow region expired. The Group has to renegotiate the period of the contracts with the relevant parties. Up until the terms of the contract are agreed, the counterparties have the right to charge penalties of approximately RUR 75 million per month.

Claims for repayment of accounts payable

After the balance sheet date several co-investors and suppliers of the Group filed lawsuits against the Group for settlement of the overdue accounts payable for the total amount of RUR 1,261 million. No court decisions were issued by the date of the financial statements approval. The liabilities and penalties due as at the reporting date were appropriately accrued for as at 31 December 2009. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group’s operating results.

New agreements concluded in 2010

In March 2010 the Group received RUR 275 million under participation agreements in projects located in Moscow and the Moscow region.

35 Supplementary information: non-GAAP measures

Net debt

	2009 mln RUR	2008 mln RUR
Short term debt	16,169	31,742
Plus: Long term debt	22,121	8,393
Less: Cash and cash equivalents	(3,417)	(3,153)
	34,873	**36,982**

Earnings before interest, tax, depreciation and amortisation

	2009 mln RUR	2008 mln RUR
Net loss for the year	(11,488)	(28,181)
Plus: Depreciation and amortisation	860	1,076
Plus: Interest expense and penalties payable	6,588	2,303
Less: Interest income	(400)	(481)
Less: Income tax expense/(benefit)	866	(1,277)
	(3,574)	**(26,560)**

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ZAO KPMG
Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

The Board of Directors
OAO Group of Companies PIK

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

In 2009, the Group entered into a number of transactions with an entity for which indications exist that it may be a related party. Management has been unable to identify the beneficial owners of this entity to determine whether these transactions, namely the accrual of interest expense and related penalties of RUR 1,130 million, the repayment of a loan of RUR 1,969 million and the sale of a subsidiary for a consideration of RUR 2,077 million are related party transactions. It was impracticable to satisfy ourselves as to whether or not this entity is a related party. Accordingly, we were unable to determine whether the disclosure of related party transactions and outstanding balances as at and for the year ended 31 December 2009, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures*, is complete.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

KPMG

Opinion

In our opinion, except for the effects of the omission of the disclosure, if any, of the information that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
6 May 2010