OAO Group of Companies PIK
Consolidated Financial Statements
for the year ended
31 December 2012

Contents

Consolidated Statement of Financial Position

In million RUB	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	15	9,076	9,023
Intangible assets	16	16,618	26,843
Investments in equity accounted investees	9	140	-
Other investments		7	8
Deferred tax assets	18	1,537	897
Total non-current assets		**27,378**	**36,771**
Current assets			
Inventories	19	82,318	76,026
Other investments		153	291
Income tax receivable		309	1,081
Trade and other receivables	20	11,276	11,731
Cash and cash equivalents		5,067	2,874
Total current assets		**99,123**	**92,003**
Total assets		**126,501**	**128,774**
EQUITY AND LIABILITIES			
Equity	21		
Share capital		30,843	30,843
Additional paid-in capital		(8,424)	(8,424)
Retained earnings		(19,544)	(22,706)
Total equity attributable to equity holders of the Company		**2,875**	**(287)**
Non-controlling interest		470	505
Total equity		**3,345**	**218**
Non-current liabilities			
Loans and borrowings	22	33,014	27,549
Trade and other payables		212	142
Deferred tax liabilities	18	1,753	1,687
Total non-current liabilities		**34,979**	**29,378**
Current liabilities			
Loans and borrowings	22	10,197	19,522
Trade and other payables	23	50,293	54,824
Provisions	24	27,378	24,561
Income tax payable		309	271
Total current liabilities		**88,177**	**99,178**
Total liabilities		**123,156**	**128,556**
Total equity and liabilities		**126,501**	**128,774**

These consolidated financial statements were approved by Management on 29 April 2013 and were signed on its behalf by:

Pavel A. Poselenov	Andrey M. Rodionov
President	*Vice-President, Economics and Finance*

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 50.

Consolidated Statement of Comprehensive Income

In million RUB	**Note**	**2012**	**2011**
Revenue	6	66,129	45,991
Cost of sales	7	(51,701)	(37,306)
Gross profit		**14,428**	**8,685**
Gain on disposal of subsidiaries and development rights, net	9	131	2,298
Distribution expenses	10	(750)	(624)
Administrative expenses	11	(3,503)	(3,487)
Reversal of impairment losses and impairment loss, net	17	210	2,877
Other income and expenses, net	13	(16)	1,621
Finance income	12	306	1,600
Finance costs	12	(6,775)	(6,558)
Profit before income tax		**4,031**	**6,412**
Income tax expense	14	(904)	(1,607)
Profit and total comprehensive income for the year		**3,127**	**4,805**
Attributable to:			
Owners of the Company		3,162	4,645
Non-controlling interest		(35)	160
Total comprehensive income for the year		**3,127**	**4,805**
Basic and diluted profit per share		**6.41**	**9.42**

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 8 to 50.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
In million RUB	**Share capital**	**Additional paid-in-capital**	**Retained earnings**	**Subtotal**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2011	**30,843**	**(8,424)**	**(27,351)**	**(4,932)**	**345**	**(4,587)**
Profit and total comprehensive income for the year	-	-	4,645	**4,645**	160	**4,805**
Balance as at 31 December 2011	**30,843**	**(8,424)**	**(22,706)**	**(287)**	**505**	**218**
Profit and total comprehensive income for the year	-	-	3,162	**3,162**	(35)	**3,127**
Balance as at 31 December 2012	**30,843**	**(8,424)**	**(19,544)**	**2,875**	**470**	**3,345**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 50.

Consolidated Statement of Cash Flows

In million RUB	2012	2011
OPERATING ACTIVITIES		
Profit for the year	**3,127**	**4,805**
Adjustments for:		
Depreciation and amortisation	860	736
Impairment losses and reversal of impairment losses, net	198	(2,877)
Gain on termination of long-term leases	-	(585)
Foreign exchange gains, net	(182)	(179)
Loss on disposal of property, plant and equipment	24	39
Impairment losses on financial assets, net	614	564
Gain from disposal of subsidiaries and development rights	(131)	(2,298)
Interest expense, including penalties payable and reversal of penalties	5,891	4,682
Change in non-controlling interest in limited liability companies	270	123
Interest income	(90)	(151)
Income tax expense	904	1,607
Cash from operating activities before changes in working capital and provisions	**11,485**	**6,466**
Decrease/ (increase) in inventories	4,190	(9,774)
Decrease in trade and other receivables	179	748
(Decrease)/ increase in trade and other payables	(4,626)	610
Increase in provision for cost to complete	2,967	1,319
Cash flows from/ (used in) operations before income taxes and interest paid	**14,195**	**(631)**
Income taxes paid	(1,255)	(1,529)
Interest paid	(5,900)	(5,891)
Net cash from/ (used in) operating activities	**7,040**	**(8,051)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	39	26
Interest received	41	-
Acquisition of property, plant and equipment	(865)	(549)
Acquisition of development rights and other intangible assets	(1,725)	(1,178)
Loans given	(102)	(122)
Proceeds from sale of development rights	513	3,322
Proceeds from disposal of subsidiaries	797	-
Proceeds from repayment of loans given	28	592
Net cash (used in)/ from investing activities	**(1,274)**	**2,091**
FINANCING ACTIVITIES		
Proceeds from borrowings	1,881	17,347
Repayment of borrowings	(5,454)	(12,863)
Net cash (used in)/ from financing activities	**(3,573)**	**4,484**
Net increase/ (decrease) in cash and cash equivalents	2,193	(1,476)
Cash and cash equivalents at beginning of year	2,874	4,350
Cash and cash equivalents at end of year	**5,067**	**2,874**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 50.

1 Background

(a) Organisation and operations

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

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

The primary activities of the Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements. During 2012 and 2011 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

As at 31 December 2012 the Nafta Moskva Group and its ultimate beneficial owner Mr. Suleiman Kerimov controlled approximately 38,3% of the Company's ordinary shares.

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

The Group additionally prepares IFRS consolidated financial statements in Russian language in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting".

(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;

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an on-going 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 17 *Impairment losses on non-financial assets and write down of inventories;*
- Note 20 *Trade and other receivables;*
- Note 24 *Provisions;*
- Note 6 *Revenue;*
- Note 27 *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 17 *Impairment losses on non-financial assets and write down of inventories;*
- Note 24 *Provisions.*

(e) Reclassification of costs

In order to conform to the current period's presentation, a reclassification of certain costs amounting to RUB 718 million was performed from general and administrative expenses to the cost of sales as reported in the consolidated statement of comprehensive income for the year ended 31 December 2011.

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

(a) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus

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

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

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

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

(iii) Subsidiaries

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

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

(iv) Loss of control

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

(v) Investments in associates (equity accounted investees)

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

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

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

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

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

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

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 20, loans issued as presented in note 22.

Cash and cash equivalents

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

Available-for-sale financial assets

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

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

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

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

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

(d) Share capital

Ordinary shares

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

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

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent measurement

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

(ii) Development rights

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

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

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

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

(g) Leased assets

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

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

(h) Inventories

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

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

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs. These costs are allocated to completed individual apartments on a prorate basis relative to their size. The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project.

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

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

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

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

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

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

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

(i) Impairment

Non-derivative financial assets

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

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

Loans and receivables and held-to-maturity investment securities

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

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

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

Available-for-sale financial assets

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

Non-financial assets

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

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

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

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

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

(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, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

(ii) Short-term benefits

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

(iii) Share-based payment transactions

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

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

(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(h), 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.

(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 profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

(ii) Social expenditure

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

(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 gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

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

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

The Group uses exemption for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis, therefore borrowing costs related to construction of mass residential premises are not capitalised. Where real estate property is not being actively developed, net rental and finance costs are taken to the profit or loss.

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

(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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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

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

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

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

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

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

(p) Earnings per share

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

(q) Segment reporting

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

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

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

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, 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. The Group has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. 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.

- IFRS 10 Consolidated Financial Statements will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period.

- IFRS 12 Disclosure of Interests in Other Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.
- IFRS 13 Fair Value Measurement will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012.
- 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 for annual periods beginning after 1 January 2013.

4 Determination of fair values

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

(a) Property, plant and equipment

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

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

(b) Intangible assets

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

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

(c) Inventories

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

(d) Equity and debt securities

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

(e) Trade and other receivables

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

(f) Non-derivative financial liabilities

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

5 Operating segments

The Group has four reportable segments which are the Group’s strategic business units:

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

There are varying levels of integration between the Real estate development, Construction and Industrial reportable segments. This integration includes construction services provided during the construction of the real estate for further reselling, production of construction materials.

In 2012 Management decided to implement changes in management accounting policies and procedures in order to align them with IFRS. Comparative information for 2011 has been represented to reflect the implemented changes.

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

(i) Segments profit and losses

	Real estate development		Construction segment		Industrial segment		Other		Total	
mln RUB	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
External revenues	55,355	35,114	6,023	5,750	2,910	2,218	1,786	3,694	**66,074**	**46,776**
Inter-segment revenue	5,959	-	12,787	16,202	1,356	2,663	447	1,960	**20,549**	**20,825**
Total revenue for reportable segments	**61,314**	**35,114**	**18,810**	**21,952**	**4,266**	**4,881**	**2,233**	**5,654**	**86,623**	**67,601**
Reportable segment gross profit/ (loss)	**13,756**	**6,249**	**1,305**	**825**	**467**	**221**	**(269)**	**723**	**15,259**	**8,018**
Gross profit/ (loss) margin	**25%**	**18%**	**22%**	**14%**	**16%**	**10%**	**(15)%**	**20%**	**23%**	**17%**

(ii) Geographical information

The Real estate development, Construction segment, Industrial segment and Other segments operations are located in Russia and operate in three principal geographical areas, Moscow, the Moscow Region and the Other Regions.

In presenting information on the basis of geography, external revenues of the Real estate development are based on the geographical location of development sites.

	Real estate development	
	2012 mln RUB	**2011 mln RUB**
Moscow	22,776	14,929
Moscow Region	27,937	15,840
Other regions	4,642	4,345
	55,355	**35,114**

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

	2012 mln RUB	**2011 mln RUB**
Reconciliation of Revenue		
Total revenue for reportable segments	86,623	67,601
Revenue of entities not included in reportable segments	-	93
Elimination of Inter-segment revenue	(20,549)	(20,825)
Other	55	(878)
Group Revenue	**66,129**	**45,991**
Gross profit or loss reconciliation		
Reportable segment profit	15,259	8,018
Profit of entities not included in reportable segments	-	603
Timing differences relating to recognition of costs	(823)	-
Other	(8)	64
Group Gross profit	**14,428**	**8,685**
Unallocated amounts		
Gain on disposal of subsidiaries and development rights,	131	2,298
Distribution expenses	(750)	(624)
Administrative expenses	(3,503)	(3,487)
Reversal of impairment losses and impairment loss, net	210	2,877
Other income and expenses, net	(16)	1,621
Finance income	306	1,600
Finance costs	(6,775)	(6,558)
Consolidated profit before income tax	**4,031**	**6,412**

(iv) Major customers

In 2012 and 2011 no customer represented more than 10% of the Group’s total revenue.

6 Revenue

	2012 mln RUB	2011 mln RUB
Revenues from sale of apartments	54,764	35,245
Revenues from construction services	5,940	5,179
Revenues from sale of construction materials and other sales	5,425	5,567
	66,129	**45,991**

Revenue from sale of apartments

	2012 mln RUB	2011 mln RUB
Completions		
Buildings, units	47	45
Sellable area, thousand square meters	710	494
Underground garages, units	7	3
Free standing garages, units	-	5
Sellable parking spaces, units	1,591	2,365
Sale of premises		
Premises sold in buildings completed in current period, thousand square meters	561	412
Premises sold in buildings completed in prior periods, thousand square meters	81	100
	642	**512**
Parking spaces sold in buildings completed in current period, units	775	681

The Group has recognised revenue of RUB 50,493 million (2011: RUB 30,855 million) for the sale of apartments to individuals. Customers have the legal right to cancel the transaction up to the date of signing final acceptance act. 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 2012 would have decreased by approximately RUB 505 million (2011: RUB 309 million).

During 2012 the revenues from sale of apartments in exchange for goods and services received amounted to RUB 4,271 million (2011: RUB 4,390 million).

7 Cost of sales

	2012 mln RUB	2011 mln RUB
Cost of apartments	41,924	28,445
Cost of construction services	5,168	4,337
Cost of construction materials and other sales	4,609	4,524
	51,701	**37,306**

8 Personnel costs

	2012 mln RUB	2011 mln RUB
Salaries and wages	4,502	4,472
Social charges	1,128	881
	5,630	**5,353**

9 Gains and losses on disposal of subsidiaries and development rights

(a) Disposal of subsidiaries and development rights in 2012

Sale of interest in ZPFNs (Closed End Share Real Estate Investment Funds)

In 2011 the Group introduced a new structure to consolidate certain commercial real estate properties located in residential buildings (commercial groundfloors) constructed by the Group, under specialized legal entities. This new structure has been developed to attract customers willing to invest in diversified commercial properties rental business.

In 2012 the Group sold its 75% interest in two of such entities which control or are expected to control 5,636 sq.m. of such properties for a total consideration of RUB 797 million. The transactions resulted in a net gain of RUB 19 million.

The remaining interest of 25% was recognised as equity accounting investees at fair value as at the date of control over subsidiaries was lost.

Sale of land plots in Moscow Region

In June 2012 the Group sold the land plot located in south of Moscow Region for the total consideration of RUB 400 million and recognised the net gain of RUB 13 million.

(b) Disposal of subsidiaries and development rights in 2011

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

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

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

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

10 Distribution expenses

	2012 mln RUB	2011 mln RUB
Salaries and wages	295	253
Advertising expenses	347	294
Other	108	77
	750	**624**

11 Administrative expenses

	2012 mln RUB	2011 mln RUB
Salaries and wages	1,948	1,829
Professional and other services	850	660
Depreciation	214	248
Other administrative expenses	491	750
	3,503	**3,487**

12 Finance income and costs

Finance income

mln RUB	2012 mln RUB	2011 mln RUB
Interest income	90	151
Reversal of bank penalties	-	1,189
Foreign exchange gains	182	179
Other finance income	34	81
	306	**1,600**

Finance costs

mln RUB	2012 mln RUB	2011 mln RUB
Interest expense	(5,891)	(5,871)
Impairment of financial assets	(614)	(564)
Change in non-controlling interest in limited liability companies	(270)	(123)
	(6,775)	**(6,558)**

13 Other income and expenses

	2012 mln RUB	2011 mln RUB
Penalties and fines, including reversals	145	473
Reversal of VAT accrued in previous periods	-	448
Effect of termination long-term land lease	-	585
Other income and expenses	(161)	115
	(16)	**1,621**

14 Income tax expense

The income tax expense consists of the following:

	2012	2011
	mln RUB	mln RUB
Current tax expense		
Current year	(1,260)	(550)
Underprovided in prior years	(290)	88
Tax provision reversed/ (recognised)	71	(1,554)
	(1,478)	**(2,016)**
Deferred tax benefit		
Origination and reversal of temporary differences	574	409
	574	409
	(904)	**(1,607)**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2011: 20%). The subsidiaries domiciled in Cyprus were taxed at a rate of 10%.

Reconciliation of effective tax rate:

	2012		2011	
	mln RUR	%	mln RUR	%
Profit before income tax	4,031	100	6,412	100
Income tax benefit at applicable tax rate	(806)	20	(1,282)	20
Effect of unrecognised deferred tax assets	87	2	(220)	(3)
Underprovided in prior years	(290)	(7)	88	1
Non-taxable income/ (non-deductible expenses)	(159)	(4)	1,477	23
Recognition of previously unrecognised tax losses	202	5	-	-
Tax provisions, net of reversals	71	2	(1,554)	(24)
Effect of income taxed at lower rates	(9)	-	(116)	(2)
	(904)	**22**	**(1,607)**	**25**

15 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2011	**10,536**	**3,069**	**1,112**	**382**	**15,099**
Additions	-	-	-	792	792
Disposals	(93)	(50)	(223)	(15)	(381)
Transfers	336	268	87	(691)	-
At 31 December 2011	**10,779**	**3,287**	**976**	**468**	**15,510**
Additions	-	-	-	1,014	1,014
Disposals	(81)	(61)	(48)	(110)	(300)
Transfers	152	533	75	(760)	-
At 31 December 2012	**10,850**	**3,759**	**1,003**	**612**	**16,224**
Accumulated depreciation and impairment losses					
At 1 January 2011	**(3,164)**	**(1,830)**	**(631)**	**(22)**	**(5,647)**
Impairment losses (see note 17)	(726)	-	-	-	(726)
Reversal of impairment losses	394	105	5	-	504
Depreciation charge	(367)	(272)	(97)	-	(736)
Disposals	18	25	75	-	118
At 31 December 2011	**(3,845)**	**(1,972)**	**(648)**	**(22)**	**(6,487)**
Impairment losses (see note 17)	(83)	-	-	-	(83)
Reversal of impairment losses	42	19	17	-	78
Impairment provision related to disposed assets	1	4	3	-	8
Depreciation charge	(377)	(336)	(104)	-	(817)
Disposals	24	50	79	-	153
Transfers	(22)	-	-	22	-
At 31 December 2012	**(4,260)**	**(2,235)**	**(653)**	**-**	**(7,148)**
Net book value					
At 1 January 2011	**7,372**	**1,239**	**481**	**360**	**9,452**
At 31 December 2011	**6,934**	**1,315**	**328**	**446**	**9,023**
At 31 December 2012	**6,590**	**1,524**	**350**	**612**	**9,076**

(a) Security

At 31 December 2012 property, plant and equipment with a carrying value of RUB 2,684 million (2011: RUB 2,847 million) was pledged to secure bank loans (refer note 22).

(b) Depreciation expense

Depreciation expense of RUB 566 million has been charged to cost of goods sold, RUB 37 million to distribution expenses, RUB 214 million to administrative expense (2011: RUB 486 million, RUB 2 million, RUB 248 million accordingly).

16 Intangible assets

mln RUB	Development rights	Other intangible assets	Total
Cost			
At 1 January 2011	**38,450**	**148**	**38,598**
Additions	1,178	64	1,242
Disposals	(819)	(8)	(827)
Reclassification into construction work-in-progress	(488)	-	(488)
At 31 December 2011	**38,321**	**204**	**38,525**
Additions	1,725	90	1,815
Disposals	(866)	(24)	(890)
Reclassification into construction work-in-progress	(16,507)	-	(16,507)
At 31 December 2012	**22,673**	**270**	**22,943**
Accumulated amortisation and impairment losses			
At 1 January 2011	**(15,712)**	**(42)**	**(15,754)**
Impairment losses (see note 17)	(666)	-	(666)
Revesal of impairment	4,154	-	4,154
Amortisation charge	-	(1)	(1)
Derecognition during reporting period	585	-	585
At 31 December 2011	**(11,639)**	**(43)**	**(11,682)**
Impairment losses (see note 17)	(40)	-	(40)
Revesal of impairment	415	-	415
Impaiment provision related to disposed assets	445	-	445
Amortisation charge	-	(43)	(43)
Derecognition during reporting period	-	1	1
Reclassification into construction work-in-progress	4,579	-	4,579
At 31 December 2012	**(6,240)**	**(85)**	**(6,325)**
Net book value			
At 1 January 2011	**22,738**	**106**	**22,844**
At 31 December 2011	**26,682**	**161**	**26,843**
At 31 December 2012	**16,433**	**185**	**16,618**

(a) Development rights

As at 31 December 2012 and 2011 the Group's portfolio of development rights comprised of the following items:

Subsidiary	Location of land plot	2012 mln RUB	2011 mln RUB
OAO Krasnopresnensky Sakharorafinadny Zavod	Moscow, Center (KSRZ)	8,375	8,360
OOO Waystone	Moscow, South, Kashirskoye	2,487	2,479
OOO RusBusinessInvest/OOO Maks Ltd	Yaroslavl (Frunzenskiy and Dzerzhinskiy districts)	2,402	2,400
ZAO Zavod Gazstroymash	Moscow, South, Varshavskoye, 141	1,704	1,636
OOO Izh Stroi	Republic of Udmurtia, Izhevsk	1,249	1,272
OOO Priz/OOO Rash	Kaliningrad region, Svetlogorsk	1,249	1,244
OOO PIK Perm	Perm, Bakharevka	1,191	1,147
OOO Semigor	Krasnodar region, Novorossisk	885	883
OOO Alanteya	Moscow, South, Ozernaya	701	701
OOO Park-Presnya	Moscow, Izmaylovsky Proezd	751	664
OOO Pulkovo-Estate	St. Petersburg, Pulkovo - 3	524	521
SDC Trud	Moscow, South, Varshavskoye, 14	478	-
OOO Speccvetmetinvest	Moscow, 17th proezd of Maryina Rosha	297	284
OOO Rostovskoye More	Rostov region	186	186
OOO Status Land	Moscow region, South-West, Kommunarka	-	9,041
OAO Kuskovskiy Khimicheskiy Zavod	Moscow, South-East (KHZ)	-	5,273
ZAO PIK-Region	Moscow region, Zheleznodorojniy	-	144
ZAO Zavod Krasniy Vostok	Moscow, South-east, Shelkovskoye	-	1,061
OOO Mayak	Moscow, South-west, Kievskoe	-	832
Others entities		194	193
		22,673	**38,321**
Less provision for impairment		(6,240)	(11,639)
		16,433	**26,682**

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 2012 and 2011. Accordingly, the consideration paid by the Group to acquire the subsidiaries was accounted as the acquisition of interests in land rights under development rights.

During the year ending 31 December 2012 the Group commenced development of four major land plots located in Moscow and Moscow region. The related development rights initially recognized as intangible assets were reclassified as construction in progress included in inventories:

Location of the land plot	mln RUB
Moscow region, South-West, Kommunarka	5,402
Moscow, South-East, Shelkovskoye	1,061
Moscow, South-East (KHZ)	5,321
Moscow region, Zhelezhodorojniy	144
	11,928

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

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

- property, plant and equipment;
- development rights;
- inventories.

The accumulated impairment losses relate to the following assets:

		31 December 2012			31 December 2011		
		mln RUB	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**	**mln RUB**
	Note	Carrying value	Impairment/ write down	Balance after impairment	Carrying value	Impairment/ write down	Balance after impairment
Property, plant and equipment	15	11,876	(2,800)	9,076	11,826	(2,803)	9,023
Development rights	16	22,676	(6,243)	16,433	38,321	(11,639)	26,682
Inventory	19	84,895	(2,577)	82,318	78,092	(2,066)	76,026
		119,447	**(11,620)**	**107,827**	**128,239**	**(16,508)**	**111,731**

In most instances the Group used discounted cash-flows to determine the recoverable amounts. The Group has also engaged an independent appraiser to estimate the fair values of the Group's investments in the development rights. In the instances where the value in use of the development rights exceeds the carrying amount of the asset, 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, if no impairment loss had been recognised.

Additional impairment losses/write-downs and reversals of impairment were recognized in 2012 and 2011 with respect to the following items due to changes in the market data related to the Group's construction projects/development rights:

	Note	**2012** **mln RUB**	**2011** **mln RUB**
Impairment losses and write downs			
Property, plant and equipment	15	(83)	(726)
Development rights	16	(40)	(666)
Inventory	19	(568)	(1,289)
		(691)	**(2,681)**
Reversal of impairment			
Property, plant and equipment	15	78	504
Development rights	16	415	4,154
Inventory	19	-	900
		493	**5,558**
		(198)	**2,877**

In 2012 impairment losses of finished goods and construction materials in the amount of RUB 408 million were included in the cost of sales. Impairment losses and reversals regarding property, plant and equipment, development rights and construction work in progress, intended for sale in the amount of RUB 210 million were included in net reversals of impairment loss and impairment losses.

In addition, in 2012 and 2011 impairment losses have been reversed in the following amounts due to disposals of the respective assets. The related gains were included in other income.

	Note	2012 mln RUB	2011 mln RUB
Derecognitions related to disposals			
Property, plant and equipment	15	8	-
Development rights	16	445	585
Inventory	19	57	-
		510	**585**

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

mln RUB	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	128	39	(329)	(358)	(201)	(319)
Investments	22	-	(105)	(20)	(83)	(20)
Intangible assets	-	-	(82)	(82)	(82)	(82)
Inventories	1,003	883	(80)	(830)	923	53
Trade and other receivables	765	300	(336)	(18)	429	282
Trade and other payables	531	1,080	(1,840)	(1,914)	(1,309)	(834)
Tax loss carry-forwards	107	130	-	-	107	130
Tax assets/(liabilities)	2,556	2,432	(2,772)	(3,222)	(216)	(790)
Set off of tax	(1,019)	(1,535)	1,019	1,535	-	-
Net tax assets/(liabilities)	**1,537**	**897**	**(1,753)**	**(1,687)**	**(216)**	**(790)**

(b) Unrecognised deferred tax assets

Deferred tax assets of RUB 4,813 million (2011: RUB 5,438 million) have not been recognised in respect of the deductible temporary differences and tax losses carried forward. The assets have not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Tax losses expire in 2018.

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

As at 31 December 2012 and 2011 there were no unrecognised deferred tax liabilities related to investments in subsidiaries since the tax value of the investments in subsidiaries exceeded the net assets of the respective subsidiaries. The unrecognized deferred tax asset amounted to RUB 12,954 million.

(d) Movement in temporary differences during the year

mln RUB	1 January 2012	Recognised in profit and loss	31 December 2012
Property, plant and equipment	(319)	118	(201)
Investments	(20)	(63)	(83)
Intangible assets	(82)	-	(82)
Inventories	53	870	923
Trade and other receivables	282	147	429
Trade and other payables	(834)	(475)	(1,309)
Tax loss carry-forwards	130	(23)	107
	(790)	**574**	**(216)**

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

19 Inventories

	2012 mln RUB	2011 mln RUB
Construction work in progress, intended for sale	69,886	68,086
Raw materials and consumables	1,856	1,367
Work in progress	135	147
Finished goods and goods for resale	10,441	6,426
	82,318	**76,026**
Write down	(2,577)	(2,066)

20 Trade and other receivables

(a) Construction contracts in progress

	2012 mln RUB	2011 mln RUB
Cost incured to date	6,162	10,493
Profits recognized to date	712	1,696
Revenue recognized to date	6,874	12,189
Progress payments received	(5,881)	(11,501)
	993	688
Amounts due to customers	(1,150)	(688)
Amounts due from customers	157	-

(b) Trade and other receivables

	2012 mln RUR	2011 mln RUR
Trade accounts receivable	4,656	6,602
Advances paid	4,755	2,440
Taxes receivable	1,372	975
Accounts receivable from sale of devopment rights	-	649
Others	493	1,065
	11,276	**11,731**
Impairment losses	(2,722)	(1,980)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 25.

21 Equity

(a) Share capital

	Ordinary shares 2012	Ordinary shares 2011
Authorised shares	979,575,384	979,575,384
Par value	RUB 62.5	RUB 62.5
On issue at beginning of year	493,260,384	493,260,384
On issue at end of year, fully paid	493,260,384	493,260,384

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

(b) Dividends

In accordance with the Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

(c) Earnings per share

The calculation of earnings per share is based upon the profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	2012	2011
Profit and total comprehensive income for the year attributable to the owners of the Company, mln RUB	3,162	4,645
Weighted average number of shares for the year ended 31 December, thousands shares	493,260	493,260
Basic and diluted profit per share, RUB	**6.41**	**9.42**

22 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 25.

	2012 mln RUB	2011 mln RUB
Non-current		
Secured bank loans	32,956	27,457
Unsecured bank loans	-	74
Unsecured loans from third parties	58	18
	33,014	**27,549**

	2012 mln RUB	2011 mln RUB
Current		
Secured bank loans	8,793	17,983
Unsecured bank loans	74	-
Unsecured loans from third parties	15	215
Interest payble	1,315	1,324
	10,197	**19,522**
	43,211	**47,071**

As at 31 December 2012 and 2011the bank loans were secured with:

- property, plant and equipment with a carrying value of RUB 2,684 million (2011: RUB 2,847 million);
- inventory with a carrying value of RUB 7,876 million (2011: RUB 5 million);
- development rights with a carrying value of RUB 11,005 million (2011: RUB 17,158 million);
- investment rights for residential and commercial real estate with a total saleable area of 57 thousand square meters and 519 parking lots in Moscow and the Moscow Region with carrying value of RUB 2,972 million and 271 million and nil square meters in other regions (2011: 107 thousand square meters with carrying value of RUB 5,493 million and nil, respectively);
- guarantees of Holborner Services Ltd, a company controlled by Nafta Moskva Group, and by a pledge of 51,579,362 Ordinary Shares and 45,463,814 GDRs owned by Holborner Services Ltd (2011: 51,579,362 Ordinary Shares and 45,463,814 GDRs);

- shares of the following subsidiaries which comprise a substantial part of the Group:

	31 December 2012		31 December 2011	
	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 KHZ	1,454,600	92	1,454,600	92
OAO 160 DSK	-	-	1,219,628	75
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	334,000	100	334,000	100
ZAO TP Red East	37,317	93	37,317	93
ZAO Stroybusinesscenter	10,000	100	10,000	100
ZAO Podmoskovie 160 DSK	5,811	63	5,811	63
ZAO Monetchik	100	100	100	100
ZAO PIK Zapad	-	-	110	100
OOO NSS	-	100	-	100
OOO Stroyinvest	-	100	-	100
OOO Status Land	-	100	-	100
100 KHI	10,016	77	10,016	77
480 KHI	1,556,430	100	1,556,430	100
OAO KSRZ	48,170	100	-	-
OAO Zawod Gazstroymash	387,421	87	387,421	87
OOO Waystone	-	100	-	100

Terms and conditions of outstanding debt

Terms and conditions of outstanding loans were as follows:

	2012 mln RUB	2011 mln RUB
Secured bank loans		
RUB - fixed at 12-14%	31,488	37,390
RUB - fixed at 14-16%	7,590	4,000
USD - fixed at 10%-11%	2,671	4,050
Unsecured bank loans		-
RUB - fixed at 14%	74	74
Unsecured loans from third parties		
RUB - fixed at 0%	-	2
RUB - fixed at 0.1% - 10%	66	159
RUB - fixed at 10.1% - 18%	7	15
USD - fixed at 3% - 12%	-	57
Interest payable	1,315	1,324
	43,211	**47,071**

23 Trade and other payables

	2012 mln RUR	2011 mln RUR
Current		
Advances from customers	34,434	38,914
Accounts payable for construction works and other trade payables	11,103	10,541
Other taxes payable	2,173	2,769
Other payables	2,583	2,600
	50,293	**54,824**

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 25.

24 Provisions

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

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

The tax provisions relating to deductibility for tax purposes of certain expenses primarily comprise of a provision of income tax of RUB 3,175 million and other taxes of RUB 47 million (2011: RUB 3,246 million and RUB 126 million, accordingly). The provision includes penalties and has not been subject to discounting.

mln RUB	Provision for costs to complete	Provision for tax	Total
As at 1 January 2012	**21,189**	**3,372**	**24,561**
Additional provisions	7,345	1,053	8,398
Releases of provisions	-	(1,203)	(1,203)
Amount used	(4,378)	-	(4,378)
As at 31 December 2012	**24,156**	**3,222**	**27,378**
As at 1 January 2011	**19,870**	**1,738**	**21,608**
Additional provisions	13,414	1,796	15,210
Releases of provisions	-	(162)	(162)
Amount used	(12,095)	-	(12,095)
As at 31 December 2011	**21,189**	**3,372**	**24,561**

25 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) Guarantees

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

Exposure to credit risk

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

Credit risk	**2012**	**2011**
	mln RUB	**mln RUB**
Loans and receivables	5,276	8,192
Cash and cash equivalents	5,067	2,874
	10,343	11,066

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:

	2012 mln RUB	2011 mln RUB
Receivable from services provided	3,155	4,592
Entities with significat state share in equity	1,501	2,010
	4,656	**6,602**

Impairment losses

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

Impairment losses	Gross 2012 mln RUB	Impairment 2012 mln RUB	Gross 2011 mln RUB	Impairment 2011 mln RUB
Not past due	5,283	-	5,003	(263)
Past due 90 days	1,087	(1,087)	842	(842)
Past due 91-180 days	406	(406)	261	(261)
Past due 181 days-1 year	376	(376)	242	(242)
More than one year	1,213	(1,213)	779	(779)
	8,366	**(3,083)**	**7,127**	**(2,387)**

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

	2012 mln RUB	2011 mln RUB
Balance at beginning of the year	2,387	1,811
Increase during the year	614	564
Amounts written off against financial assets	82	12
Balance at end of the year	**3,083**	**2,387**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. However in 2011, 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.

Liquidity risk

2012	**Average interest rate**							
mln RUB	**Contra-ctual**	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Bank loans	10-16%	10-16%	3,962	4,905	32,431	525	-	41,823
Trade and other payables	-	-	13,686	-	-	-	-	13,686
Interest payable	-	-	3,449	2,385	1,714	15	-	7,563
Unsecured loans from third parties	0-18%	10-16%	15	-	-	58	-	73
			21,112	**7,290**	**34,145**	**598**	**-**	**63,145**

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

(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 (RUB). The currency in which these transactions are primarily 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 RUB, but also USD. This provides an economic hedge and no derivatives are entered into.

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

Exposure to currency risk

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

mln RUB	USD-denominated 2012	USD-denominated 2011
Cash	5	542
Short-term investments	-	116
Receivables	77	82
Trade payables	(1)	(2)
Other payables	(139)	(139)
Promissory notes	-	(672)
Loans and borrowings	(2,702)	(4,107)
	(2,760)	**(4,180)**

The RUB/USD exchange rates at 31 December 2012 and 31 December 2011 were 30.37 and 32.20 respectively. The average RUB/USD rates for the years were 31.09 and 29.39 respectively.

Sensitivity analysis

A 20% strengthening of the RUB against the USD at 31 December 2012 and 31 December 2011 would have increased equity and profit by RUB 552 million and RUB 836 respectively. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 20% weakening of the RUB against the above currencies at 31 December 2012, and 31 December 2011 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:

Fixed rate instruments	2012 mln RUB	2011 mln RUB
Financial assets	152	525
Financial liabilities	(43,211)	(47,071)
	(43,059)	**(46,546)**

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 2012 and 31 December 2011 the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4.

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

(f) Capital management

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

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

The Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 31.

During 2011 and 2012 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.

26 Commitments

Commitments under co-investment and construction services contracts

During 2011-2012 the Group entered into a number of co-investment contracts and estimated the total cash outflow for each individual project. Under these projects payments have not been made in full by individuals. Therefore, the Group has contractual obligations to complete the buildings within normal operating cycle of development. As at 31 December 2012 commitments under these contracts totalled approximately RUB 41,080 million (2011: RUB 48,225 million). These payments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

27 Contingencies

(b) 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.

(c) Litigation

The Group is involved in various claims and legal proceedings relating to supply and service contracts. The amount of RUB 1,726 million related to accounts payable claimed at court at the end of the 2012 (2011: RUB 776 million). This amount was included in accounts payable as at 31 December 2012. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operations, since the amounts are included in the balance of accounts payable at the period end.

(d) 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.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

Management has not provided any amounts in these consolidated financial statements as it believes that transactions with Group companies were consistent with no applicable tax law and there will be no outflow of funds should the tax authorities challenge management position.

Reclassification of sales contracts in 2011-2012

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

In 2011 – 2012 upon receiving court notification the Group filed revised tax returns for the period 2009 – 2012. The tax authorities have revised the treatment of respective sales contracts being VAT exempt to cession contracts since the Group has not recognized formal transfer of title to customers. Accordingly the tax authorities charged additional VAT, fines and penalties based on inspection of submitted tax returns in the amount of RUB 128 million.

The Group has contested the tax authorities' decisions in court. In relation to 99% of additional tax charges the court of 1st or 2nd instances ruled in favour of the Group. However, there is a possibility that the tax authorities will file an appeal to a higher court.

The Management has not provided any amounts in respect of such obligations as it believes that it is more likely than not that the litigations will be resolved in favour of the Group.

Other tax contingencies

As at 31 December 2012 other contingent liabilities related to taxation amounted to approximately RUB 1,050 million (2011: RUB 700 million). This amount mainly includes contingent profit tax and VAT liabilities resulting from late recognition of sales income for tax purposes, profit distribution between group companies and tax treatment of some income and expenses applied by the Group that may be challenged by the tax authorities.

(e) 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.

28 Related party transactions

(a) Control relationships

As at 31 December 2011 and 2012 there were no immediate or ultimate parent companies of the Group.

(b) Management remuneration

(i) Salaries and bonuses

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

	2012 mln RUB	2011 mln RUB
Salaries and bonuses	138	129
Contributions to State Pension Fund	15	3
	153	**132**

(ii) Share-based compensation

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

As of 31 December 2012 and 31 December 2011, no related expense or liability has been recognized in the consolidated financial statements, as the conditions required for receiving share-based compensation were not met.

(c) Transactions with associates

In 2012 the Group sold residential properties to one of its associates (ZPFNs) for RUB 792 million. The unrealized gain, attributable to the Group's share, of RUB 94 million resulting from the sale was eliminated against the balance of equity accounted investees. As at 31 December 2012 advances from customers included RUB 6 million related to one of the Group's associates (ZPFNs).

(d) Transactions with other related parties

During 2012 and 2011 executive directors and board members purchased from the Group residential property and a parking lots:

	2012 mln RUB	2011 mln RUB
Sales of apartmens and a parking lots in uncompleted buildings	48	-
Sales of apartmens and a parking lots in completed buildings	14	71
	62	**71**

The amounts related to uncompleted properties are included in advances from customers as at 31 December 2012.

(e) Guarantees for bank loans provided by related parties

Holborner Services Ltd, a company controlled by Nafta Moskva Group, provided guarantees for bank loans by a pledge of 51,579,362 Ordinary Shares and 45,463,814 GDRs owned by Holborner Services Ltd (2011: 51,579,362 Ordinary Shares and 45,463,814 GDRs). The guarantees are provided as a security for the short term bank loans payable in 2013.

29 Significant subsidiaries

As of 31 December 2012 the Group controlled 126 legal entities (2011: 124). 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	2012	2011	2012	2011
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%
OOO MFS-PIK	Russia	100%	100%	100%	100%
OAO DSK-2	Russia	98%	98%	98%	98%
OAO DSK-3	Russia	87%	87%	87%	87%
Viniso Investments Limited	Cyprus	75%	75%	75%	75%
OAO 100 KGI	Russia	92%	92%	92%	92%
OAO 480 KGI	Russia	100%	100%	100%	100%

30 Events subsequent to the reporting date

Repayment of loans

In March 2013, the Group has repaid RUB 1,054 million credit facilities outstanding at 31 December 2012.

31 Supplementary information: non-IFRS measures

Net debt:

	2012 mln RUB	2011 mln RUB
Loans and borrowings, current	10,197	19,522
Plus: Loans and borrowings, non-current	33,014	27,549
Less: Cash and cash equivalents	(5,067)	(2,874)
	38,144	**44,197**

Earnings before interest, taxes, depreciation and amortisation:

EBITDA	2012 mln RUB	2011 mln RUB
Profit for the year	3,127	4,805
Plus: Depreciation and amortisation	860	736
Plus: Interest expense and penalties payable	5,891	5,871
Less: Interest income and reversal of penalties	(90)	(1,340)
Plus: Income tax expense	904	1,607
	10,692	**11,679**
Adjusted EBITDA		
Reversal of impairment losses, net	(210)	(2,877)
Impairment losses on financial assets, net	614	564
Foreign exchange gains, net	(182)	(179)
Loss on disposal of property, plant and equipment	24	39
Gain from disposal of subsidiaries and development rights	(131)	(2,298)
Gain on termination of long-term leases	-	(585)
Penalties and fines, including reversals	(145)	(473)
	10,662	**5,870**

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