JSC HALS-Development and subsidiaries

Consolidated financial statements

31 December 2011

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Report of independent auditors

To the Shareholders of JSC HALS-Development

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

ERNST & YOUNG

Opinion

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

Emphasis of matter

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of RUR 3,466 million during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets by RUR 31,181 million. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Ernst & Young LLC

24 April 2012

JSC HALS-Development and subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December 2011

(Amounts in millions of Russian Rubles, except for shares and loss per share amounts)

	Notes	2011	2010
Rental income	7	289	212
Other property operating expense		(126)	(92)
Net rental income		**163**	**120**
Valuation gains/(losses) on completed investment property	15	802	(1,525)
Valuation gains on investment property under construction	16	1,540	2,161
Net valuation gains on investment property		**2,342**	**636**
Revenue from sales of inventory property	8	95	3,520
Cost of sales - inventory property	8, 20	(46)	(3,240)
Gross profit on sale of inventory property		**49**	**280**
Reverse of write-down/(write-down) of inventory property to net realizable value	20	**2**	**(839)**
Revenue from room charges and other hotel services	8	285	–
Cost of hotel services		(207)	–
Gross profit on hotel services		**78**	**–**
Other sales	8	66	85
Cost of other sales		(19)	(34)
Gross profit on other sales		**47**	**51**
Administration expenses	9	(1,142)	(692)
Other operating income	10	434	757
Other operating expenses	11	(1,388)	(1,961)
Operating profit/(loss)		**585**	**(1,648)**
Gain/(loss) on disposal of subsidiary	6	536	(84)
Finance income	12	618	720
Finance expenses	13	(3,937)	(3,705)
Share of loss of associates and joint ventures, net of tax	17	(423)	(1,463)
Foreign exchange (loss)/gain		(341)	64
Loss before tax		**(2,962)**	**(6,116)**
Income tax (expense)/benefit	14	(504)	137
Loss for the year		**(3,466)**	**(5,979)**
Attributable to:			
Owners of the parent		(3,411)	(5,979)
Non-controlling interests		(55)	–
		(3,466)	**(5,979)**
Total comprehensive loss for the year		**(3,466)**	**(5,979)**
Attributable to:			
Owners of the parent		(3,411)	(5,979)
Non-controlling interests		(55)	–
		(3,466)	**(5,979)**
Weighted average number of common shares outstanding		11,211,534	11,186,229
Basic and diluted loss for the year per share, RUR		(309)	(534)

The accompanying notes are an integral part of these consolidated financial statements.

JSC HALS-Development and subsidiaries

Consolidated statement of financial position

As of 31 December 2011

(Amounts in millions of Russian Rubles)

	Notes	31 December 2011	31 December 2010	1 January 2010
Assets				
Non-current assets				
Property, plant and equipment	18	2,614	961	75
Completed investment property	15	5,572	5,232	6,860
Investment property under construction	16	20,427	10,684	13,355
Inventory property	20	16,609	12,196	6,250
Intangible assets	19	106	29	676
Loans and notes receivable	22	7,074	2,302	1,935
Investments in associates and joint ventures	17	3,947	4,565	2,533
VAT reimbursable		1,940	1,909	1,119
Other non-financial assets	24	6,111	4,133	2,331
Other financial assets	21	509	–	–
Deferred tax assets	14	1,249	1,680	1,982
		66,158	**43,691**	**37,116**
Current assets				
Inventory property	20	6,180	3,999	7,644
Trade and other receivables	21	619	634	794
VAT reimbursable		1,580	95	306
Cash and short-term deposits	23	2,038	693	158
Other financial assets		609	–	60
Loans and notes receivable	22	154	880	658
Other non-financial assets	24	372	536	728
		11,552	**6,837**	**10,348**
Total assets		**77,710**	**50,528**	**47,464**
Equity and liabilities				
Equity				
Issued share capital	25	567	567	567
Treasury shares	25	(1)	(1)	(1)
Additional paid-in capital		18,296	18,296	18,276
Accumulated losses		(39,643)	(36,232)	(30,253)
Total equity attributable to equity holders of the parent		**(20,781)**	**(17,370)**	**(11,411)**
Non-controlling interest		1,248	–	–
Total equity		**(19,533)**	**(17,370)**	**(11,411)**
Non-current liabilities				
Net assets attributable to non-controlling participants in LLCs	29	–	41	157
Interest bearing loans and borrowings	26	49,912	55,313	35,306
Other non-financial liabilities	28	469	1,200	2,915
Deferred tax liability	14	4,129	3,026	3,634
		54,510	**59,580**	**42,012**
Current liabilities				
Interest bearing loans and borrowings	26	34,694	3,450	7,440
Trade and other payables	27	1,166	1,193	1,915
Provisions	10	144	220	111
Income tax payable		14	23	38
Other non-financial liabilities	28	6,715	3,432	7,359
		42,733	**8,318**	**16,863**
Total liabilities		**97,243**	**67,898**	**58,875**
Total equity and liabilities		**77,710**	**50,528**	**47,464**

The accompanying notes are an integral part of these consolidated financial statements.

JSC HALS-Development and subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2011

(Amounts in millions of Russian Rubles)

	Issued share capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
At 1 January 2010	**567**	**(1)**	**18,276**	**(30,253)**	**(11,411)**	**–**	**(11,411)**
Loss for the year			–	(5,979)	(5,979)	–	**(5,979)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(5,979)**	**(5,979)**	**–**	**(5,979)**
Acquisition of treasury shares (Note 25)	–	(6)	(107)	–	**(113)**	–	**(113)**
Sale of treasury shares (Note 25)	–	6	127	–	**133**	–	**133**
At 31 December 2010	**567**	**(1)**	**18,296**	**(36,232)**	**(17,370)**	**–**	**(17,370)**
Loss for the year	–	–	–	(3,411)	**(3,411)**	(55)	**(3,466)**
Other comprehensive loss	–	–	–	–	–	–	**–**
Total comprehensive loss for the year	**–**	**–**	**–**	**(3,411)**	**(3,411)**	**(55)**	**(3,466)**
Acquisition of subsidiaries (Note 6)	–	–	–	–	–	1,147	**1,147**
Contribution in share capital of subsidiary (Note 6)	–	–	–	–	–	156	**156**
At 31 December 2011	**567**	**(1)**	**18,296**	**(39,643)**	**(20,781)**	**1,248**	**(19,533)**

The accompanying notes are an integral part of these consolidated financial statements.

JSC HALS-Development and subsidiaries

Consolidated cash flow statement

for the year ended 31 December 2011

(Amounts in millions of Russian Rubles)

	Notes	2011	2010
Operating activities			
Loss before tax		**(2,962)**	**(6,116)**
Adjustments to reconcile loss before tax to net cash flows:			
Changes in fair value of investment property	15,16	(2,342)	(636)
Share of profit in associates and joint ventures	17	423	1,463
Loss from remeasurement of investments in associates to fair value	6	64	150
Loss on acquisition	6	–	952
Impairment of development rights	19	–	453
Excess of the net fair value of the acquiree's identifiable assets and liabilities over the consideration	6	(65)	–
Depreciation and amortization	18,19	101	41
Gain on disposal of subsidiary	6	(536)	84
Write-down (reverse of write-down) of inventory property to net realizable value	20	(2)	839
Impairment of property, plant and equipment	11	609	
Finance income	12	(618)	(720)
Finance expenses	13	3,937	3,705
Changes in legal provision	10	(56)	56
Recover of receivables written off in prior period	10	(241)	(160)
Changes in tax provision	10	(20)	53
Receivables and other assets write off	11	445	52
Foreign currency (gain)/loss		341	(64)
		(922)	**152**
Net cash flows before working capital changes:			
Change in trade and other receivables, VAT reimbursable and other non-financial assets		(2,773)	1,570
Change in inventory property		(4,831)	(1,140)
Change in trade, other payables and non-financial liabilities		2,476	(2,505)
Net cash flow used in operating activities		**(6,050)**	**(1,923)**
Income tax reimbursed/(paid)		76	(15)
Net cash flow used in operating activities		**(5,974)**	**(1,938)**
Investing activities			
Acquisition of businesses, net of cash acquired	6	(2,973)	(1,299)
Disposal of businesses, net of cash disposed	6	30	–
Contribution to Hals-Technopark	6	–	(756)
Acquisition of associate	17	–	(2,344)
Capital expenditure on completed investment property		–	(161)
Expenditure on investment property and property, plant and equipment under construction		–	(67)
Advances paid for construction of investment property and property, plant and equipment		(3,901)	(2,345)
Loans issued		(3,406)	(2,111)
Interest received		31	8
Repayment of loans issued		5	48
Net cash flow used in investing activities		**(10,214)**	**(9,027)**
Financing activities			
Proceeds from borrowings		21,757	18,641
Redemption of borrowings		(4,026)	(6,394)
Capital contribution	6	156	–
Purchase of treasury shares	25	–	(113)
Proceeds from sale of treasury shares	25	–	118
Interest paid		(375)	(743)
Net cash flow from financing activities		**17,512**	**11,509**
Effects of foreign currency translation on cash and cash equivalents		21	(9)
Net increase in cash and cash equivalents		**1,345**	**535**
Cash and cash equivalents at 1 January	23	693	158
Cash and cash equivalents at 31 December	23	**2,038**	**693**

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

JSC HALS-Development, formerly known as JSC Sistema-Hals,("HALS-Development" or the "Company") and subsidiaries (together – the "Group") are engaged in real estate development, primarily focused on the "Class A" and "Class B" buildings of the Moscow office market, shopping centers, high-end housing, single family houses, apartment buildings and land development. The Group's revenues are derived principally from the following activities:

- Sale of completed development projects, both commercial and residential, as well as the sale of land plots; and
- Rental income from completed development projects; and
- Revenue from room charges and other hotel services.

The Group's operations are conducted in the Russian Federation (hereinafter referred to as "the RF") and the Commonwealth of Independent States ("the CIS"), primarily in Moscow, the Moscow Region, the Nizhniy Novgorod region, Sochi, Kiev and Saint-Petersburg. The majority of the Group entities are incorporated in the RF. The registered office is located at B.Tatarskaya st., Moscow, Russia.

As at 31 December 2011, 31 December 2010 and 1 January 2010, OJSC VTB Bank ("VTB") owned 51.24% of the share capital of the Company. As at 1 January 2010 the share of AFK Sistema in Company's capital amounted to 27.6%. In 2010 AFK Sistema sold its stake to Blairwood Limited (Cyprus) and Stoneflower Limited (Cyprus), each of which held 13.8% of the Company's capital as at 31 December 2011 and 31 December 2010. The controlling party of the Group is the state of the Russian Federation, acting through the Federal Property Agency.

These consolidated financial statements at 31 December 2011 and for the year then ended were authorised for issue by the President of the Company on 24 April 2012.

2. Basis of preparation

The consolidated statements for the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 December 2010, the Group prepared its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

These consolidated financial statements for the year ended 31 December 2011 are the first the Group has prepared in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for investment property measured at fair value and property, plant and equipment revalued to determine deemed cost as part of adoption of IFRS and when otherwise indicated in the accounting policies below.

These consolidated financial statements are presented in the Russian Rouble ("RUR") and all values are rounded to the nearest million, except when otherwise indicated.

2. Basis of preparation (continued)

As the Group has never previously prepared IFRS financial statements it qualifies as a first time adopter under IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain IFRS effective for December 2011 year-end. The Group has applied the following exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 January 2010. As a result, in the opening statement of financial position, goodwill arising from past business combinations remains as stated under US GAAP as of 31 December 2009.
- Items of property, plant and equipment were recorded at fair values as deemed cost at the date of transition to IFRS.
- The Group has applied the transitional provision in IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and has assessed all arrangements as at the date of transition to IFRS.

In accordance with IFRS 1, the Group applies the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first complete set of IFRS financial statements. Those accounting policies should comply with each IFRS effective at the as at 31 December 2011.

In preparing these consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its US GAAP consolidated statement of financial position as at 1 January 2010 and its previously published US GAAP consolidated financial statements for the year ended 31 December 2010.

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 1 January 2010 (date of transition to IFRS)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Assets							**Non-current assets**
Buildings used for administrative purposes, plant and equipment, net	D	5,557	168	–	(93)	75	Property, plant and equipment
Development rights and other intangible assets	F	15,810	478	–	198	676	Intangible assets
Income producing properties	C	112,335	3,397	–	3,463	6,860	Completed investment property
Real estate developed for sale		287,145	8,684	(8,684)	–	–	
Real estate developed to hold and to use		440,582	13,325	(13,325)	–	–	
Costs and estimated earnings in excess of billings on uncompleted contracts		67,999	2,057	(2,057)	–	–	
	C	–	–	13,011	344	13,355	Investment property under construction
	A, B	–	–	4,943	1,307	6,250	Inventory property
Investments in associates and joint ventures	H	62,286	1,884	–	649	2,533	Investments in associates and joint ventures
Deposits, loans receivable and investments in debt and equity securities		35,248	1,066	869	–	1,935	Loans and notes receivable
Taxes receivable	E	66,104	1,999	(662)	(218)	1,119	VAT reimbursable
Deferred tax assets	G	10,218	309	–	1,673	1,982	Deferred tax assets
		–	–	2,331	–	2,331	Other non-financial assets
							Current assets
		–	–	306	–	306	VAT reimbursable
	A, B	–	–	3,697	3,947	7,644	Inventory property
Trade receivables, net		53,901	1,630	(836)	–	794	Trade and other receivables
Other receivables, net		40,057	1,210	(1,210)		–	
Cash and cash equivalents		5,216	158	–	–	158	Cash and short-term deposits
		–	–	60	–	60	Other financial assets
Debt issuance costs, net of accumulated amortization		843	28	630	–	658	Loans and notes receivable
		–	–	728	–	728	Other non-financial assets
Total assets		**1,203,301**	**36,393**	**(199)**	**11,270**	**47,464**	**Total assets**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 1 January 2010 (date of transition to IFRS) (continued)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Shareholders' deficit							**Equity**
Share capital		20,492	567	–	–	567	Issued share capital
Treasury stock		(18)	(1)	–	–	(1)	Treasury shares
Additional paid-in capital		652,243	18,276	–	–	18,276	Additional paid in capital
Accumulated deficit	A-J	(954,065)	(28,233)	–	(2,020)	(30,253)	Accumulated losses
Accumulated other comprehensive loss		(29,145)	–	–	–	–	
Total Hals-Development' Shareholders' deficit		**(310,493)**	**(9,391)**	–	**(2,020)**	**(11,411)**	**Total equity attributable to equity holders of the parent**
Non-controlling interest		(33,209)	(1,004)	1,004	–	–	
Total shareholders' deficit		**(343,702)**	**(10,395)**	**1,004**	–	–	**Non-current liabilities**
	I	–	–	(1,004)	1,161	157	Net assets attributable to non-controlling participants in LLCs
Loans and notes payable		1,301,565	39,365	(4,059)	–	35,306	Interest bearing loans and borrowings
Billings in excess of costs and estimated earnings on uncompleted contracts		17,456	528	(528)	–	–	
	A	–	–	153	2,762	2,915	Other non-financial liabilities
Accrued expenses and other liabilities		134,626	4,072	(4,072)	–	–	
Deferred tax liabilities	G	48,994	1,482	–	2,152	3,634	Deferred tax liabilities
							Current liabilities
		–	–	7,440	–	7,440	Interest bearing loans and borrowings
Payables to suppliers and subcontractors		38,846	1,175	740	–	1,915	Trade and other payables
		–	–	111	–	111	Provisions for contingencies
		–	–	38	–	38	Income tax payable
	A	–	–	144	7,215	7,359	Other non-financial liabilities
Taxes payable		5,516	166	(166)	–	–	
Total liabilities		**1,547,003**	**46,788**	**(1,203)**	**13,290**	**58,875**	**Total liabilities**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 31 December 2010

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Assets							**Non-current assets**
Buildings used for administrative purposes, plant and equipment, net	D	5,172	158	856	(53)	961	Property, plant and equipment
Development rights and other intangible assets	F	1,138	35	–	(6)	29	Intangible assets
Income producing properties	C	88,117	2,686	–	2,546	5,232	Completed investment property
Real estate developed for sale		457,972	13,958	(13,958)	–	–	
Real estate developed to hold and to use		445,441	13,576	(13,576)	–	–	
Costs and estimated earnings in excess of billings on uncompleted contracts		28,205	860	(860)	–	–	
	C	–	–	10,785	(101)	10,684	Investment property under construction
	A, B	–	–	11,230	966	12,196	Inventory property
Investments in associates and joint ventures	H	155,699	4,745	64	(244)	4,565	Investments in associates and joint ventures
Deposits, loans receivable and investments in debt and equity securities		94,840	2,890	(588)	–	2,302	Loans and notes receivable
Taxes receivable	E	78,590	2,395	(362)	(124)	1,909	VAT reimbursable
Deferred tax assets	G	22,522	686	–	994	1,680	Deferred tax assets
		–	–	4,133	–	4,133	Other non-financial assets
							Current assets
		–	–	95	–	95	VAT reimbursable
	A, B	–	–	1,791	2,208	3,999	Inventory property
Trade receivables, net		6,782	206	428	–	634	Trade and other receivables
Other receivables, net		38,849	1,185	(1,185)	–	–	
Cash and cash equivalents		22,782	693	–	–	693	Cash and short-term deposits
Debt issuance costs, net of accumulated amortization		3	0	880	–	880	Loans and notes receivable
		–	–	536	–	536	Other non-financial assets
Total assets		**1,446,112**	**44,073**	**269**	**6,186**	**50,528**	**Total assets**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of equity as at 31 December 2010 (continued)

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Shareholders' deficit							**Equity**
Share capital		20,492	567	–	–	567	Issued share capital
Treasury stock		(9)	(1)	–	–	(1)	Treasury shares
Additional paid-in capital		652,945	18,296	–	–	18,296	Additional paid-in capital
Accumulated deficit	A-J	(1,201,976)	(35,756)	–	(476)	(36,232)	Accumulated losses
Accumulated other comprehensive loss		(25,974)	–	–	–	–	
Total Hals-Development' shareholders' deficit		**(554,522)**	**(16,894)**	**–**	**(476)**	**(17,370)**	**Total equity attributable to equity holders of the parent**
Non-controlling interest		(33,994)	(1,041)	1,041	–	–	
Total shareholders' deficit		**(588,516)**	**(17,935)**	**1,041**	**–**	**–**	
							Non-current liabilities
Non-controlling interest	I	–	–	(1,041)	1,082	41	Net assets attributable to non-controlling participants in LLCs
Loans and notes payable		1,691,086	51,539	3,774	–	55,313	Interest bearing loans and borrowings
Billings in excess of costs and estimated earnings on uncompleted contracts	A	22,460	684	516	–	1,200	Other non-financial liabilities
Accrued expenses and other liabilities		260,601	7,942	(7,942)	–	–	Other financial liabilities
Deferred tax liabilities	G	23,564	717	–	2,309	3,026	Deferred tax liability
							Current liabilities
		–	–	3,450	–	3,450	Interest bearing loans and borrowings
Payables to suppliers and subcontractors		29,125	888	305	–	1,193	Trade and other payables
		–	–	220	–	220	Provisions for contingencies
		–	–	23	–	23	Income tax payable
	A	–	–	161	3,271	3,432	Other non-financial liabilities
Taxes payable		7,792	238	(238)	–	–	
Total liabilities		**2,034,628**	**62,008**	**(772)**	**6,662**	**67,898**	**Total liabilities**

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. Basis of preparation (continued)

Group reconciliation of total comprehensive loss for the year ended 31 December 2010

US GAAP format	Notes	US GAAP, kUSD	US GAAP, mln RUR	Presentation difference	Measurement and recognition differences	IFRS, mln RUR	IFRS format
Revenues		26,409	800	(800)	–	–	
Operating expenses		(141,228)	(4,283)	4,283	–	–	
Operating loss		**(114,819)**	**(3,483)**	**–**	**–**	**–**	
		–	–	212	–	212	Rental income
		–	–	(92)	–	(92)	Other property operating expense
		–	**–**	**–**	**–**	**120**	**Net rental income**
	C	–	–	–	(1,525)	(1,525)	Valuation losses from completed investment property
	C	–	–	(2,782)	4,943	2,161	Valuation gains from investment property under construction
		–	**–**	**–**	**–**	**636**	**Net valuation gains on investment property**
	A	–	–	503	3,017	3,520	Sales of inventory properties
	A, B	–	–	(291)	(2,949)	(3,240)	Cost of sales – inventory property
		–	**–**	**–**	**–**	**280**	**Gross profit on sale of inventory property**
	B	–	–	(15)	(824)	(839)	Write-down of inventory property to net realizable value
		–	–	85	–	85	Other sales
		–	–	(34)	–	(34)	Cost of other sales
		–	**–**	**–**	**–**	**51**	**Profit on other sales**
	D	–	–	(1,068)	376	(692)	Administration expenses
		–	–	757	–	757	Other operating income
Other expenses, net	F, H	(47,808)	(1,458)	(917)	414	(1,961)	Other operating expenses
		–	**–**	**–**	**–**	**(1,648)**	**Operating loss**
Gain/(loss) on disposal of subsidiaries	J	5,278	162	–	(246)	(84)	Loss on disposal of subsidiary
Interest income	I, E	10,137	309	201	210	720	Finance income
Interest expense		(120,784)	(3,663)	(42)	–	(3,705)	Finance expenses
Loss from associates and joint ventures	H	(19,079)	(583)	–	(880)	(1,463)	Share of loss of associates and joint ventures, net of tax
Gain/(loss) on foreign currency transactions		1,964	64	–	–	64	Foreign exchange gain
Loss from continuing operations before income tax and non-controlling interests		**(285,111)**	**(8,652)**	**–**	**2,536**	**(6,116)**	**Loss before tax**
Income tax credit	G	35,989	1,100	–	(963)	137	Income tax
Loss from continuing operations before non-controlling interests		**(249,122)**	**(7,552)**	**–**	**1,573**	**(5,979)**	**Loss for the year attributable o equity holders of the parent**
Net loss attributable to non-controlling interests		1,211	37	(37)	–	–	

2. Basis of preparation (continued)

Notes to the reconciliation of equity as at 1 January and 31 December 2010 and total comprehensive income for the year ended 31 December 2010

Presentation differences

- Under US GAAP assets and liabilities are presented in order of liquidity when under IFRS current assets and liabilities are distinguished from non-current ones.
- Non-controlling interest in subsidiaries, which are limited liability companies, is recognised as shareholders' deficit under US GAAP versus liability as required under IFRS if under the law it may at any time withdraw from the company and request to repay the non-controlling interest's share of net assets. Under IFRS share of non-controlling participants in loss of those subsidiaries is presented in the statement of comprehensive income as finance income.
- Real estate developed for sale under US GAAP comprises projects on construction of real estate for future sale in the ordinary course of business and was classified as inventory property under IFRS. Advances issued for construction of such properties are classified as other non-financial assets under IFRS versus recognition of such advances as part of real estate developed for sale under US GAAP.
- Real estate developed to hold and to use under US GAAP classified as investment property under construction and property, plant and equipment under IFRS. Advances issued for construction of such properties are classified as other non-financial assets under IFRS versus recognition of such advances as part of real estate developed to hold and to use under US GAAP.
- Other reclassifications of assets and liabilities to comply with IFRS presentation of statement of financial position.

Measurement and recognition differences

A. Revenue recognition

Under US GAAP Revenues from development of office buildings, apartments, condominiums, shopping centers and similar structures are recognised, in accordance with ASC 360 – 20 *Property, Plant and Equipment – Real Estate Sales*, prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for nondelivery of the property; (c) sales prices are collectible; and (d) aggregate sales proceeds and costs can be reasonably estimated.

Under IFRS, as explained in Note 4, revenues are recognised for inventory property sales pursuant to IAS 18 when all of the revenue recognition criteria for the sale of goods have been met as a sales contract is not in the scope of IAS 11 or there is no continuous transfer of control and risks and rewards under IAS 18.

B. Inventory property

Under US GAAP real estate developed for sale is stated at lower of cost or fair value less cost to sell. Impairment evaluation performed when indicators of impairment are present. A write-down of property is a new cost basis and the impairment cannot be recovered in future periods.

Under IFRS, as explained in Note 4, inventory property is carried at lower of cost or net realizable value (NRV). Assessment of NRV performed each reporting period. Previously recognised impairment losses are reversed up to original cost if reasons for impairment no longer exist.

2. Basis of preparation (continued)

Notes to the reconciliation of equity as at 1 January and 31 December 2010 and total comprehensive income for the year ended 31 December 2010 (continued)

C. Investment property

Under US GAAP real estate property to hold and to use and income producing properties are carried at historical cost less accumulated depreciation and impairment losses. In accordance with ASC 360 *Impairment or Disposal of Long-Lived Assets* the Group evaluated the recoverability of the carrying amount of its long-lived assets whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. The Group compared undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows were less than the carrying amounts of the assets, the Group recorded impairment losses to write the asset down to fair value. The impairment cannot be recovered in future periods.

Under IFRS, as explained in Note 4, the Group selected to measure investment property at fair value at each reporting date with movements in fair value taken to profit or loss.

D. Property, plant and equipment

The Group elected to measure certain items of property, plant and equipment at fair values at the date of transition to IFRS. This resulting difference was recognised against accumulated losses.

E. Long-term VAT recoverable

Under US GAAP long-term VAT recoverable is stated at cost. Under IFRS, as explained in Note 4, the Group selected to account for long-term VAT recoverable at fair value at inception date and measured at amortised cost at subsequent reporting dates.

F. Intangible assets

The Group elected to measure development rights at fair values at the date of transition to IFRS. This resulting difference was recognised in accumulated losses.

G. Deferred taxes

Various measurement and recognition differences between US GAAP and IFRS described above led to temporary differences under IFRS and were recognised accordingly.

H. Investments in associates and joint ventures

Investments in associates and joint ventures measurement and recognition differences between US GAAP and IFRS are mostly driven by differences in valuation of underlying projects as described above.

I. Net assets attributable to non-controlling participants in LLCs

Measurement differences in net assets attributable to non-controlling participants in LLCs in accordance with IFRS as compared to US GAAP are mostly caused by differences in valuation of underlying projects as described above.

J. Loss on disposal of subsidiary

Measurement differences in the result of disposal of subsidiary in accordance with IFRS as compared to US GAAP are mostly caused by differences in valuation of underlying projects as described above.

2. Basis of preparation (continued)

Notes to the reconciliation of equity as at 1 January, and 31 December 2010 and total comprehensive income for the year ended 31 December 2010 (continued)

Cash flow statement

No material adjustments to the statement of cash flows were made on transition to IFRS, expect the following:

- reclassification of interest paid from operating activity in the US GAAP consolidated statement of cash flows to financing activity in the consolidated statement of cash flows under IFRS;
- cash flows on real estate developed for sale were classified as investing activity in the US GAAP consolidated statement of cash flows versus classification of cash flows on inventory property under changes in working capital in operating activity in the consolidated statement of cash flows under IFRS.

Going concern

As at 31 December 2011, the Group's negative net assets amounted to RUR 19,533 million (31 December 2010: RUR 17,370 million) and as of that date the Group's current liabilities exceeded its current assets by RUR 31,181 million (31 December 2010: RUR 1,481 million). Group incurred a net loss of RUR 3,466 million for the year ended 31 December 2011 (31 December 2010: RUR 5,979 million).

The Group's ability to complete projects under development and fund its contractual commitments/co-investment contracts requires a significant amount of capital and liquidity.

Management of the Group has assessed its current strategic and operational intentions, future profitability of its operations based on the current market conditions, its cash requirements, and its ability to access financing and associated cost of such financing. Based on this assessment, management has taken the following actions:

- management assessed the Group's portfolio of projects and has prioritized those that it believes are more strategic to the Group, and suspended other activities in order to reduce its cash requirements;
- during 2011 the Group continued to restructure its debt portfolio. Certain borrowings were repaid using new facilities obtained from VTB, the Group controlling shareholder. VTB's loans now account for approximately 96% of the Group's total loans and notes payable (Note 26).

Management believes, based on the actions undertaken, that it will have adequate liquidity to continue to fund its liabilities and operations and continue as a going concern for the next year.

The conditions described above represent a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared based on the assumption that the Group is able to continue its business as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Classification of properties

The Group determines whether a property is classified as own property, plant and equipment, investment property or inventory properties:

- Investment property comprises land and buildings (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Inventory property comprises properties that are held for sale in the ordinary course of business. Principally, this is residential properties that the Group develops and intends to sell before or on completion of construction.
- Property, plant and equipment comprises properties that are held for use in supply of goods or services or for administrative purposes.

3. Significant accounting judgements, estimates and assumptions (continued)

Operating lease contracts – Group as a lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.

Estimation of net realisable value for inventory property

Inventory is stated at the lower of cost and net realisable value (NRV).

NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

NRV for property under construction is assessed with reference to the selling market prices at the reporting date for similar completed property, less estimated cost to complete the construction provided in the current construction budget, adjusted for the time value of money if material.

Valuation of investment property

The fair value of investment property is determined by Company’s internal valuers using recognised valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group assets.

Investment property under construction is also valued at fair value as determined by Company’s internal valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants’ profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at reporting date.

The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in Notes 15 and 16.

3. Significant accounting judgements, estimates and assumptions (continued)

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 14.

4. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The ownership interest of Company and the proportion of its voting power in its major subsidiaries as of 31 December 2011, 31 December 2010 and 1 January 2010 were as follows:

(Amounts in millions of Russian Rubles, unless otherwise stated)

4. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

			Ownership interest and voting power		
Operating entities	**Location**	**Investment project**	**30 December 2011**	**31 December 2010**	**1 January 2010**
Beiging-Invest	Russia	Pekin Hotel	100%	100%	100%
Bolshoy City	Russia	Bolshoi City	100%	100%	100%
Hals-Stroy	Russia	Michurinsky, Elninsksya	100%	100%	100%
IRT	Russia	Niidar	100%	100%	100%
Kuntsevo-Invest	Russia	Elninskaya	100%	100%	100%
Sapidus	Cyprus	Holding Company	100%	100%	100%
SIB-BROK	Ukraine	Yalta	100%	100%	100%
Yurlak	Russia	Detski Mir Kazan	100%	100%	100%
Lubyanka-development	Russia	Detski Mir Moscow	100%	100%	100%
Sistema-Hals Nord-West (ZAO)	Russia	Leto	76%	76%	76%
Gorki-8	Russia	Gorki Townhouses	75%	75%	75%
Istochnik	Russia	Gorki Pole	75%	75%	75%
RTI-Estate	Russia	8 Marta	–	51%	51%
Hals-Technopark	Russia	Povarskaya	50%	50%	100%
Astanda	Cyprus	Kamelia	100%	100%	50%
CiTer Invest B.V.	Netherlands	Moscow-City	50.5%	–	–
GOK Pekin	Russia	Pekin Hotel	100%	–	–

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interest, and the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Subsequently, goodwill is not amortised, but is tested for impairment at least annually.

4. Summary of significant accounting policies (continued)

Goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The Group's cash generating units are investment projects.

Interests in jointly controlled entities

The Group has contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities.

Where the joint venture is established through an interest in a company (a jointly controlled entity), the Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group's statement of comprehensive income reflects the share of the jointly controlled entity's results after tax.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of comprehensive income.

4. Summary of significant accounting policies (continued)

Investment in an associate (continued)

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Classification of assets and liabilities

The Group's normal operating cycle is not clearly identifiable therefore it is assumed to be twelve months. Assets and liabilities are classified as current if they are expected to be realized or settled within the twelve months after the balance sheet date. All other assets and liabilities are classified as non-current.

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is a functional currency of the Company and all its subsidiaries. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset including investment property under construction and inventory property that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

4. Summary of significant accounting policies (continued)

Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Investment property also includes land with a currently undetermined future use.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss in the year in which they arise. For the purposes of these consolidated financial statements, in order to avoid ‘double accounting’, the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments
- Increased by the carrying amount of any liability to the superior leaseholder or freeholder that has been recognised in the statement of financial position as a finance lease obligation.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the profit or loss in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 30 years
- Plant and equipment 3 to 5 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Developments rights

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.

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.

4. Summary of significant accounting policies (continued)

Financial assets

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and notes receivables.

All financial assets are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Where the time value of money is material, receivables are carried at amortised cost. An impairment loss is recognised when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.
VAT recoverable arises when VAT related to purchases exceeds VAT related to sales. Long term VAT recoverable is recognised at fair value at inception date and measured at amortised cost at subsequent reporting dates.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

4. Summary of significant accounting policies (continued)

Loans and borrowings (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date less costs to complete and the estimated selling expenses, adjusted for the time value of money if material.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

The Group has considered the application of IFRIC 15 to these contracts and concluded that these ‘pre-completion’ contracts were not, in substance, construction contracts. However, where the legal terms were such that the construction represented the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition has been applied and revenue recognised as work progressed. Development expenditure incurred in respect of inventory dealt with under the percentage of completion method is recognised in profit or loss in the period incurred.

4. Summary of significant accounting policies (continued)

Inventory property (continued)

Revenue from sales of residential properties where the contracts are not in substance construction contracts and do not lead to a continuous transfer of work in progress, is recognised in accordance with revenue recognition section presented below.

Exchange transactions

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Based on the investment agreements the Group is obliged to construct buildings, where a part of apartments and non-residential premises are transferred to the local authorities for no consideration. The obligation of the Group to deliver certain number of apartments to the local authorities is a part of investment contract granting to the Group the right to construct buildings, so the Group exchanges real estate properties for the development right.

The goods exchanged are of different nature and therefore there is a substance to these transactions and the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of development right received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

As far as the development right was received before apartments are transferred to the authorities the non-financial liability to deliver apartments at future date is recognised. At the date of exchange, which is normally the date of investment agreement, the Group recognises the development rights as intangible asset (to be further included in total costs of construction of such buildings) and the obligations to develop property as non-financial liability (being by nature the advance payment received from the authorities). At the date when the act of acceptance is signed, the Group should recognise revenue. Cost of construction of apartments and facilities to be transferred to the authorities are accounted for as work in progress until construction is completed and recognised as cost of sales when sales to authorities are recognised.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five-years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventory, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Cash and short term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less.

Net assets attributable to non-controlling participants in LLCs

Non-controlling interests in the Group's subsidiaries, established in the form of a limited liability company ("LLC"), do not satisfy the conditions of an equity instrument, since in accordance with the legislation of Russian Federation and charters, participants of those subsidiaries have a right to request the redemption of their interests in cash. Based on the provisions of the law determining the exit period, the net assets attributable to non-controlling participants in LLC had been presented within non-current liabilities. Share of non-controlling participants in profit or loss of those subsidiaries is presented in the statement of comprehensive income as finance income or expense.

Deposits paid under an operating lease - Group as a lessor

Deposits paid by lessees at the inception of an operating lease for which no interest is receivable or the interest rate receivable is lower than market interest rates are initially accounted for at fair value as within the scope of IAS 39. The excess between the principal amounts of the deposit over its fair value is within the scope of IAS 17. The fair value of the deposits are determined based on the prevailing market rate of interest for a similar loan, considering the credit worthiness of the Group and, depending on facts and circumstances, any additional security available to the lessee. The excess of the principal amount of the deposits over its fair value is accounted for as prepaid lease expense (income) and amortised over the lease term on a straight-line basis. Interest on the deposit, meanwhile, is accounted for using the effective interest rate (EIR) method.

4. Summary of significant accounting policies (continued)

Revenue recognition

Revenue from room charges

Revenue is recognised on room charges when rooms are occupied and revenue from other hotel services when those have been rendered.

Rental income

Rental income receivable from operating leases, less the Group's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the profit or loss when they arise.

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue, as the directors consider that the Group acts as principal in this respect.

Sales of real estate property

Revenue from the sale of real estate properties 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. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Time of the transfer of risks and benefits vary depending on the specific conditions of the contract of sale. There are two variant of revenue from pre-sale of constructed apartments:

- in the CPJC (the contract of participation in joint construction) – revenue is recognised at the time of signing the act of reception and transmission of apartment;
- in the contract of transfer of rights to previously signed investment contract – revenue is recognised at the time of signing of the act of investment contract completion.

Revenue from sale of completed properties is recognised at the date when risks and rewards are transferred to the buyers which is usually the date of title registration.

4. Summary of significant accounting policies (continued)

Revenue from construction services

Revenue from construction services is recognised by reference to the stage of completion. Stage of completion is measured by reference to actual costs incurred to date as a percentage of total estimated costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and accrues provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary differences can be controlled by the parent, venturer or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. Based on the fact that the tax loss can be offset against received profits within the next ten years (art.283 Tax Code RF), the confidence of the Group for reimbursement of a deferred tax asset on losses associated with the following beliefs:

- During this period expected to be completed investment projects, respectively, the Group will receive income from the rental or sale of assets;
- Group companies are the holders of shares and can get profit from their sale or in the form of dividends.

The element of the total carrying amount of the investment property represented by the land is considered non-depreciable. The directors estimate the depreciable amount and residual value of the building element on a property by property basis.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

4. Summary of significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement. Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty related costs is revised annually.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Segment information

The Group’s business operations are located in the Russian Federation and the CIS and relate primarily to real estate development. In the second half of 2011 management decided to change the presentation of the operating segments from development projects basis to class of property basis as management monitors the operating results of its business units based on the different classes of property separately for the purpose of making decisions about resource allocation and performance assessment.

The Group considers that it has six operating segment under IFRS 8:

- real estate held for sale – ready for use by the buyer;
- real estate held for sale – under construction;
- investment property – under construction;
- investment property – submitted to the operating lease;
- hospitality – under construction;
- hospitality – rented apartments.

Segment performance is evaluated based on the results of the cash flows, representing the movement in cash flows for the reporting period. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on accrual basis, and management accounts are prepared on cash basis. The majority of the Group's revenue and non-current assets are generated and located in Russia.

5. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments - Classification and Measurement

In November 2009 the IASB issued the first phase of IFRS 9 *Financial instruments*. This Standard will eventually replace IAS 39 *Financial Instrument: Recognition and Measurement*. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

Amendment to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognised. The Group expects that these amendments will have no impact on the Group's financial position and performance.

Amendment to IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis The Group now evaluates the impact of the adoption of these amendments.

IFRS 10 Consolidated Financial Statements

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control.

In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

5. Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). The result is greater balance sheet volatility for those entities currently applying the corridor approach. In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) service costs and gains/losses on settlement. Expected returns on plan assets will be replaced by a credit to income based on the corporate bond yield rate. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group expects that these amendments will have no impact on the Group's financial position and performance.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The IASB and the US FASB issued amendments that are intended to improve and align the presentation of items of other comprehensive income (OCI) in financial statements prepared in accordance with IFRS and US GAAP. The amendments to IAS 1 *Presentation of Financial Statements* require companies preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendment becomes effective for annual periods beginning on or after 1 July 2012. Currently the Group evaluates possible effect of these amendments on the presentation of OCI.

(Amounts in millions of Russian Rubles, unless otherwise stated)

5. Standards issued but not yet effective (continued)

IAS 27 (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Currently the Group evaluates possible effect of these amendments on its financial position and performance.

IAS 28 (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Currently the Group evaluates possible effect of these amendments on its financial position and performance.

6. Acquisitions and disposals

Acquisition of Citer Invest B.V.

In May 2011 the Group acquired 50% + 1 shares of Citer Invest B.V. for the amount of USD 45.2 million (RUR 1,262 million) and cash contribution to the share capital in the amount of USD 5,050 thousand (RUR 156 million) for the development of new Project “Multi-function complex with transport terminal as part of Moscow International Business Center “Moscow-City”.

Citer Invest B.V. `s fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Property, plant and equipment	10
Investment property under construction	5,038
Trade and other receivables	1
Cash and short-term deposits	36
Other current financial assets	311
Other current non-financial assets	198
	5,594
Interest bearing loans and borrowings	(1,789)
Deferred tax liability	(660)
Trade and other payables	(345)
Other current non-financial liabilities	(168)
	(2,962)
Total identifiable net assets at fair value	**2,629**
Non-controlling interest measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.	1,303
Total consideration	1,418
Goodwill arising on acquisition (Note 19)	**92**
Total consideration consists of:	**1,418**
- cash consideration paid	1,262
- capital contribution	156
Cash paid for the acquisition	(1,262)
Cash acquired with the subsidiary	36
Net cash outflow on acquisition	**(1,226)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions and disposals (continued)

Acquisition of Citer Invest B.V. (continued)

As at 31 December 2011 capital contribution was paid and operation for the acquisition of Citer Invest B.V. has been fully completed. The goodwill of RUR 92 million comprises the fair value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition, Citer Invest B.V. has contributed RUR nil million and RUR 32 million to Group's revenue and Group's loss before tax for the year ended 31 December 2011, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR nil million and RUR 44 million, respectively.

Acquisition of GOK "Pekin"

In March 2011 the Group acquired 100% of the shares of JSC "Hotel "Pekin" for the amount of RUR 1,706 million for the development of the Project "Hotel and Office complex "Pekin".

GOK "Pekin`s fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Property, plant and equipment	2,091
Deferred tax assets	16
Trade and other receivables	9
Cash and short-term deposits	25
Other current non-financial assets	3
	2,144
Deferred tax liability	(411)
Trade and other payables	(27)
	(438)
Total identifiable net assets at fair value	**1,706**
Total consideration	**1,706**
Cash paid for the acquisition	(1,706)
Cash acquired with the subsidiary	25
Net cash outflow on acquisition	**(1,681)**

From the date of acquisition, GOK "Pekin" has contributed RUR 285 million and RUR 41 million to Group's revenue and Group's reduction of loss before tax for the year ended 31 December 2011, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR 48 million and RUR 2 million, respectively.

Acquisition of Gandiva Enterprises Limited

In June 2011 the Group acquired 50% of the shares of Gandiva Enterprises Limited for cash consideration of RUR 66 million. At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 64 million (Note 11).

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions and disposals (continued)

Acquisition of Gandiva Enterprises Limited (continued)

Gandiva Enterprises Limited's fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Completed investment property	387
Deferred tax assets	14
Other current non-financial assets	139
	540
Other non-current financial liabilities	(76)
Deferred tax liability	(102)
Current interest bearing loans and borrowings	(101)
	(279)
Total identifiable net assets at fair value	**261**
Fair value of previously acquired interest (50%)	131
Total consideration consists of:	**66**
- cash consideration paid	66
Gain on a bargain purchase	**(65)**
Cash paid for the acquisition	(66)
Cash acquired with the subsidiary	–
Net cash outflow on acquisition	**(66)**

Excess of the net fair value of the acquiree's identifiable assets and liabilities over the consideration in the amount of RUR 65 million has been recognised in other operating income on the acquisition date.

From the date of acquisition, Gandiva Enterprises Limited has contributed RUR nil million and RUR 1 million to Group's revenue and Group's loss before tax for the year ended 31 December 2011, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR nil million and RUR 1 million, respectively.

Acquisition of Astanda

In 2007 the Group had 100% shares in Kamelia project (the construction of a hotel "Kamelia" in Sochi) and sold 50% shares to Saraya Russia, a third party, for the cash consideration of USD 40 million. In 2010 the Group considered that it was not able to comply with the conditions of the contract. The Group negotiated buying the 50% shares back for the consideration equal to the amount received from Saraya Russia plus cost capitalized at the project in the total amount of USD 42.4 million (RUR 1,302 million). At the moment of this acquisition the fair value of the consideration paid significantly exceeded the fair value of the business acquired. As a result of this transaction the loss has been recognised in the amount of RUR 952 million. At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 150 million (Note 11).

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions and disposals (continued)

Acquisition of Astanda (continued)

Astanda`s fair value of net assets at the date of purchase as follows:

	Fair value recognised on acquisition
Property, plant and equipment	650
VAT reimbursable	28
Deferred tax assets	34
Cash and short-term deposits	3
Trade and other receivables	28
	743
Deferred tax liability	(31)
Trade and other payables	(12)
	(43)
Total identifiable net assets at fair value	**700**
Fair value of previously acquired interest (50%)	350
Purchase consideration transferred	1,302
Loss on acquisition	**952**
Cash paid for the acquisition	(1,302)
Cash acquired with the subsidiary	3
Net cash outflow on acquisition	**(1,299)**

From the date of acquisition, Astanda has contributed RUR nil million and RUR 25 million to Group's revenue and Group's loss before tax for the year ended 31 December 2010, respectively. If the combination had taken place at the beginning of the year, Group's revenue and Group' loss before tax would have been increased by RUR nil million and RUR 48 million for the year ended 31 December 2010, respectively.

Disposal of ZAO RTI Estate

The Group held 51% of the voting shares of ZAO RTI Estate. In the course of the linked transactions relating to the disposal of the project 8 March in October 2011 the Group acquired 49% of the voting shares ZAO RTI Estate from a third party for the cash consideration of RUR 42 million and in December 2011 the Group sold 100% of the voting shares of ZAO RTI Estate to a third party for the cash consideration of RUR 812 million. As of 31 December 2011 the Group received payments in the amount of RUR 82 million. The remaining consideration will be paid within 36 months from the date of sale ZAO RTI Estate. The fair value of the consideration receivable for the sale of 51% of the voting shares of ZAO RTI Estate as the result of these linked transactions amounted to RUR 699 million.

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. Acquisitions and disposals (continued)

Disposal of ZAO RTI Estate (continued)

ZAO RTI Estate`s carrying value of net assets at the date of disposal was as follows:

Completed investment property	617
Trade and other receivables	10
Cash and short-term deposits	10
VAT reimbursable	77
	714
Trade and other payables	(509)
Deferred tax liability	(39)
Other current non-financial liabilities	(3)
	(551)
Net assets disposed	**163**
Fair value of the consideration receivable	**699**
Gain on disposal of subsidiary	**536**

Disposal of JSC Hals-Tehnopark

In October 2010, JSC Hals-Tehnopark issued 3,781,900 additional shares at par RUR 100, out of which 1,890,900 were purchased by the Group for cash consideration of RUR 757 million, the rest was paid by third party through the contribution of property. As a result the Group made a deemed disposal of JSC Hals-Tehnopark (a former 100% subsidiary of the Group), decreasing its share to 50%. As a result of loss of control the Group recognised loss in the amount of RUR 84 million.

JSC Hals-Tehnopark`s carrying value of net assets at the date of disposal was as follows:

Inventory property	2,287
Trade and other receivables	395
Cash and short-term deposits	–
Deferred tax assets	34
Other non-financial assets	55
Loans and notes receivable	3
	2,774
Trade and other payables	(1,626)
Deferred tax liability	(200)
Current interest bearing loans and borrowings	(779)
	(2,605)
Net assets disposed	**169**
Group's cash contribution to JSC Hals-Technopark	757
Fair value of 50% interest in JSC Hals-Technopark (Note 17)	841
Loss on disposal of subsidiary	**84**

(Amounts in millions of Russian Rubles, unless otherwise stated)

7. Revenue from rental of investment property

The Group has entered into leases on its property portfolio. The commercial property leases typically have lease terms between five and seven years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

In October 2011 the Group signed an agreement with the tenants for lease of Danilovsky Fort for a period of five years. As of 31 December 2011 the Group received a deposit for the last three months of lease in the amount of USD 2.0 million (or RUR 65.0 million). In 2011 the Group recognized revenue under this agreement in the amount of RUR 48.8 million.

In November 2011 the Group signed a preliminary agreement with the tenant for lease of Tower «A» SkyLight for a period of seven years. As of 31 December 2011 the Group received a deposit for the last three months of lease in the amount of USD 7.9 million (or RUR 244.4 million).

In December 2011, the Group sold 100% of the voting shares ZAO RTI Estate and therefore disposed 8 March property (Note 6). Revenue received under this property in 2011 amounted to RUR 103.1 million.

Revenue received for the objects TRK Kazan, Krasnobogatyrskaya (NIIDAR project) and other objects in 2011 amounted to 47.4 million RUR, 54.4 million RUR and 35.3 million RUR, respectively.

As of 31 December 2011 future minimum rentals receivable under major non-cancellable operating leases are as follows:

Expected maturities	**Future minimum lease payments**
Within one year	656
In the second to fifth year	5,920
After fifth year	2,299
	8,875

8. Revenue from sales of inventory property, from room charges and other hotel services and other sales

In 2011 the Group recognised revenue and cost relating to the Nakhimovski-Dnepropetrovsky project (inventory property) in the amount of RUR 95 million and RUR 46 million, respectively.

In the fourth quarter of 2010 the Group signed an act of investment contract completion for Nakhimovski-Dnepropetrovsky project. The Group recognised revenue and cost relating to the transaction in the amount of RUR 3,520 million and RUR 3,240 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

8. Revenue from sales of inventory property, from room charges and other hotel services and other sales (continued)

	2011	2010
Total area transferred to customers, thousand square meters:	0.736	39,612
Including:		
transferred to the local authorities	–	11,882
transferred to other customers	0.736	27,730
Parking lots transferred to customers	0.151	419
Including:		
transferred to the local authorities	–	419
transferred to other customers	0.151	–

Revenue from room charges and other hotel services for the year ended 31 December 2011 in the amount of RUR 285 million represented by Hotel Pekin, which the Group acquired in March 2011 (Note 6).

Other sales for the year ended 31 December 2011 and 2010 represent general constructor service fees in the amount RUR 42 million and RUR 53 million, respectively, and other revenues.

9. Administration expenses

	2011	2010
Staff cost	727	445
Depreciation and amortization	38	40
Consulting and other professional services	177	67
Advertising costs	92	19
Rent of premises and land	25	10
Repairs, maintenance and utilities	20	34
Communication services	11	6
Security expenses	8	3
Banking services	6	4
Insurance	2	6
Other	36	58
	1,142	**692**

10. Other operating income

	2011	2010
Recovery of receivables written off in prior periods	241	638
Gain on a bargain purchase (Note 6)	65	–
Reversal of legal provision	56	–
Reversal of tax provision	20	–
Fines and penalties for contracts breach	–	61
Other	52	58
	434	**757**

In 2011 the Group reversed unrecoverable receivables written off in prior periods in the amount of RUR 241 million, reversed legal and tax provisions in the amount of RUR 56 million and RUR 20 million respectively.

In 2010 the Group reversed unrecoverable receivables written off in prior periods in the amount of RUR 638 million, including RUR 478 million paid in cash.

(Amounts in millions of Russian Rubles, unless otherwise stated)

11. Other operating expenses

	2011	2010
Loss on acquisition (Note 6)	–	952
Impairment of property plant and equipment (Note 18)	609	–
Receivables and other assets write off	445	52
Taxes other than income tax	172	137
Loss from remeasurement of investment in associate to fair value (Note 6)	64	150
Development rights impairment (Note 19)	–	453
Legal provision	–	56
Tax provision	–	53
Other	98	108
	1,388	**1,961**

In 2011 the Group wrote off receivables due from Telekom Development, a former associate of the Group, disposed in 2011, in the total amount of RUR 241 million. In addition, the Group wrote off receivables due from a number of third parties, nonrefundable VAT and other assets in the amount of RUR 131 million, RUR 48 million and RUR 25 million, respectively.

Loss from remesurement of the investment in associate to fair value in the amount of RUR 150 million and RUR 64 million were recognised upon acquisition of Astanda in 2010 and Gandiva Enterprises Limited in 2011, respectively (Note 6).

In 2010 the Group wrote off receivables due from a number of related parties in the total amount of RUR 52 million.

In 2010 the Group recognised provisions for litigation and tax risks in the amount of RUR 56 million and RUR 53 million, respectively.

12. Finance income

	2011	2010
Interest on loans issued	449	429
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies (Note 29)	21	116
Unwinding of discount of long-term VAT	117	94
Reverse of bank commission (VTB)	–	75
Interest on bank deposits	31	6
	618	**720**

The Group recognized the unwinding of the discount related to long term input VAT as finance income in 2011 and 2010 in the total amount of RUR 117 million and of RUR 94 million, respectively.

In 2010 the VTB returned to the Group commission accrued and paid by the Group in 2009 in the amount of RUR 75 million. The return was caused by amendments to the loan agreements.

(Amounts in millions of Russian Rubles, unless otherwise stated)

13. Finance expenses

	2011	2010
Interest on bank loans	5,951	4,601
Less: amounts capitalized	(2,040)	(896)
Discount of long-term financial assets	26	–
Total	**3,937**	**3,705**

In 2011 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 560 million, RUR 1,373 million and RUR 107 million, respectively.

In 2011 the Group recognised the discount related to long term receivable as finance expenses in the total amount of RUR 26 million (Note 21).

In 2010 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 98 million, RUR 751 million and RUR 47 million, respectively.

14. Income tax

The major components of income tax for the years ended 31 December 2011 and 2010 are:

	2011	2010
Consolidated statement of comprehensive income		
Current income tax expense	(74)	–
Deferred income tax (expense)/benefit relating to origination and reversal of temporary differences	(430)	137
Income tax (expense)/benefit reported in the consolidated statement of comprehensive income	**(504)**	**137**

A reconciliation between income tax and the product of accounting loss multiplied by statutory tax rate for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Loss before tax	**(2,962)**	**(6,116)**
Income tax benefit computed on loss before taxes at statutory rate (20%)	592	1,223
Non-deductible expenses	(794)	(909)
Effect of tax rates in other jurisdictions	(278)	(175)
Effect of net loss attributable to non-controlling participants in LLCs	(5)	23
Change in unrecognised deferred tax assets	(19)	(25)
Total income tax reported in the consolidated statement of comprehensive income	**(504)**	**137**

(Amounts in millions of Russian Rubles, unless otherwise stated)

14. Income tax (continued)

	Consolidated statement of financial position		Consolidated statement of comprehensive income
	31 December 2011	**31 December 2010**	**2011**
Deferred tax liability			
Revaluations of investment property to fair value	(4,206)	(3,191)	146
Development rights valuation	–	(2)	2
Timing of revenue recognition	(227)	(244)	17
Timing of capitalized interest recognised	(357)	(556)	199
Timing of costs recognised	(181)	(165)	(16)
Other liability	(78)	(92)	5
	(5,049)	**(4,250)**	**353**
Deferred income tax assets			
Valuations of assets other than investment property	148	182	(34)
Revaluations of investment property to fair value	699	1,619	(920)
Depreciation	37	48	(11)
Losses available for offset against future taxable income	1,250	1,018	184
Other assets valuation	35	37	(2)
	2,169	**2,904**	**(783)**
Deferred tax benefit			**(430)**
Deferred tax liability, net			
Reflected in the consolidated statement of financial position as follows:			
Deferred tax assets	1,249	1,680	
Deferred tax liability	(4,129)	(3,026)	
Deferred tax liability, net	**(2,880)**	**(1,346)**	

	Consolidated statement of financial position		Consolidated statement of comprehensive income
	31 December 2010	**1 January 2010**	**2010**
Deferred tax liability			
Revaluations of investment property to fair value	(3,191)	(3,193)	(164)
Development rights valuation	(2)	(125)	123
Timing of revenue recognition	(244)	(163)	(81)
Timing of capitalized interest recognised	(556)	(538)	(18)
Timing of costs recognised	(165)	(98)	(67)
Other liability	(92)	(143)	51
	(4,250)	**(4,260)**	**(156)**
Deferred income tax assets			
Valuations of assets other than investment property	182	361	(179)
Revaluations of investment property to fair value	1,619	1,440	179
Depreciation	48	31	17
Losses available for offset against future taxable income	1,018	675	340
Other assets valuation	37	101	(64)
	2,904	**2,608**	**293**
Deferred tax benefit			**137**
Deferred tax liability, net			
Reflected in the consolidated statement of financial position as follows:			
Deferred tax assets	1,680	1,982	
Deferred tax liability	(3,026)	(3,634)	
Deferred tax liability, net	**(1,346)**	**(1,652)**	

(Amounts in millions of Russian Rubles, unless otherwise stated)

14. Income tax (continued)

Reconciliation of deferred tax liability, net for the years ended 31 December 2011 and 2010 is follows:

	2011	2010
At 1 January	**(1,346)**	**(1,652)**
Income tax recognised in the consolidated statement of comprehensive income	(430)	137
Acquisition of subsidiary (Note 6)	(1,143)	3
Disposal of subsidiary (Note 6)	39	166
At 31 December	**(2,880)**	**(1,346)**

15. Completed investment property

	2011	2010
At 1 January	**5,232**	**6,860**
Capital expenditure on owned property	29	77
Acquisition of subsidiary (Note 6)	387	–
Disposal of subsidiary (Note 6)	(617)	–
Transfer to inventory property (Note 20)	(389)	(42)
Transfer to property, plant and equipment (Note 18)	–	(138)
Transfer from investment property under construction (Note 16)	128	–
Fair value adjustment	802	(1,525)
At 31 December	**5,572**	**5,232**

The fair value of completed investment property has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the International Valuation Standards Council (IVSC). In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The valuations were performed by Group's internal valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining the fair value of buildings, held primarily to earn rental income, totaling RUR 3,130 million, RUR 2,787 million and RUR 3,372 million of 31 December 2011, 31 December 2010 and 1 January 2010, respectively, the income method was used.

The significant assumptions made relating to income method valuations of the major projects of the Group are set out below:

	31 December 2011	31 December 2010	1 January 2010
Contracted rental rate, kRUR/sq. m/per year	7.2	9.6	9.3
Average annual rental rate indexation	9.0%	6.4%	6.1%
Market rental rate			
office, kRUR/sq. m/year	14.5	9.5	8.2
retail, kRUR/sq. m/year	4.9	9.9	10.5
Terminal capitalization rate	11.5%	11.3%	7.4%
Discount rate	12.2%	12.3%	13.1%

(Amounts in millions of Russian Rubles, unless otherwise stated)

15. Completed investment property (continued)

In determining the fair value of land and buildings, held to benefit from capital appreciation over the long-term, totaling RUR 1,043 million, RUR 1,108 million and RUR 1,956 million as of 31 December 2011, 31 December 2010 and 1 January 2010, respectively, the income method and the comparative method were used.

The significant assumptions made relating to income method valuations of the major projects of the Group are set out below:

	31 December 2011	31 December 2010	1 January 2010
Average annual rental rate indexation	3.8%	4.4%	6.1%
Market selling prices, kRUR/sq. m	393.9	390	–
Discount rate	24.0%	25.5%	18.0%
Construction costs, kRUR/sq. m	58.1	116	81.6

In determining the fair value of land, held to benefit from capital appreciation over the long-term and for currently undetermined use, totaling RUR 1,399 million, RUR 1,337 million and RUR 1,532 million as of 31 December 2011, 31 December 2010 and 1 January 2010, respectively, the comparative method was used.

In 2011 “Detsky Mir Kazan” project in the amount of RUR 128 million were transferred from investment property under construction to completed investment property as the Group has completed this object.

16. Investment property under construction

	2011	2010
At 1 January	**10,684**	**13,355**
Capital expenditure	2,733	84
Interest capitalized	560	98
Acquisition of subsidiary (Note 6)	5,038	–
Transfer to completed investment property (Note 15)	(128)	–
Transfer from inventory property (Note 20)	–	1,863
Transfer to inventory property (Note 20)	–	(6,877)
Fair value adjustment	1,540	2,161
At 31 December	**20,427**	**10,684**

The fair value of investment property under construction has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The valuations were performed by Group’s internal valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining the fair value of investment property under construction, totaling RUR 20,427 million, RUR 9,880 million and RUR 8,322 million of 31 December 2011, 31 December 2010 and 1 January 2010, respectively, the income method was used.

(Amounts in millions of Russian Rubles, unless otherwise stated)

16. Investment property under construction (continued)

The significant assumptions made relating to income method valuations of the major projects of the Group are set out below:

	31 December 2011	31 December 2010	1 January 2010
Average annual rental rate indexation	4.3%	2.0%	6.4%
Market rental rate			
office, kRUR/sq. m/year	19.6	17	52.2
retail, kRUR/sq. m/year	34.2	13.3	125.3
Terminal capitalization rate	9.0%	10.5%	9.2%
Discount rate	19.0%	16.1%	22.9%
Construction costs, kRUR/sq. m	56	50.9	47.8

For other projects the comparative method was used.

17. Investments in associates and joint ventures

Investments in associates and joint ventures consisted of the following:

	Project	Voting and effective %	31 December 2011	31 December 2010	1 January 2010
JSC Ekvivalent	Nevskaya Ratusha	50%	2,100	2,134	–
Joint venture with Apsys	Leto	50%	966	1,355	1,081
Joint venture with Saraya	Kamelia	50%	–	–	500
Hals-Technopark	Povarskaya	50%	881	881	–
Telekom-Development	Telecom-Development	50%	–	195	952
Total			**3,947**	**4,565**	**2,533**

	2011	2010
At 1 January	**4,565**	**2,533**
Share of loss of associates and joint ventures, net of tax, in the consolidated statement of comprehensive income	(423)	(1,463)
Remesurement of stake in Joint venture with Saraya	–	(150)
Disposal of Joint venture with Saraya (Note 6)	–	(350)
Acquisition of JSC Ekvivalent	–	2,344
Disposal of Telekom-Development (Note 6)	(195)	–
Addition of JSC Hals-Technopark (Note 6)		841
Contribution to joint venture with Apsys	–	810
At 31 December	**3,947**	**4,565**

(Amounts in millions of Russian Rubles, unless otherwise stated)

17. Investments in associates and joint ventures (continued)

As a result of the acquisition of remaining 50% of two projects held by Telekom Development through acquisition of Gandiva Enterprises Limited in 2011, the Group remeasured the previously held investment in this joint venture to its fair value and recognised loss in the amount of RUR 64 million (Note 6).

In 2011 the Group recognised share of loss of joint venture with Apsys in the amount of RUR 389 million and share of loss of JSC Ekvivalent in the amount of RUR 34 million.

In April 2010, the Group acquired 50% of the voting shares of JSC Ekvivalent, specializing in the construction of a multifunctional complex "Nevskaya Ratusha" in S.Peterburg, for RUR 2,344 million.

As a result of the acquisition of remaining 50% of Astanda (joint venture with Saraya) in 2010, the Group remeasured the previously held investment in this joint venture to its fair value and recognised loss in the amount of RUR 150 million (Note 6).

In October 2010 the Group disposed 50% stake in JSC Hals-Technopark, a former subsidiary of the Group, and the remaining 50% was accounted for as investments in associates in the amount of RUR 841 million being stake's fair value at the date of loss of control (Note 6). In 2010 the Group recognised share of profit Hals-Technopark in the amount of RUR 40 million as a result of the revaluation project Povarskaya.

In 2010 the Group changes its strategy of financing the project Leto and capitalized investment loans of RUR 810 million. As a result the Group's contribution to investments in joint venture with Apsys increased by RUR 810 million.

In 2010 the Group recognised share of loss Telekom-Development, joint venture with Apsys and JSC Ekvivalent in the amount of RUR 757 million, RUR 536 million and RUR 210 million, respectively.

The summarized information on assets, liabilities, and results of operations of the investees, is as follows:

	31 December 2011	31 December 2010	1 January 2010
Assets	28,558	24,906	10,443
Liabilities	(20,664)	(15,776)	(5,377)
Net assets	**7,894**	**9,130**	**5,066**

	31 December 2011	31 December 2010
Loss for the year ended	**(846)**	**(2,926)**

The Group has not incurred any contingent liabilities in relation to its interest in the joint venture, nor does the joint venture itself have any contingent liabilities for which the Group is contingently liable.

The Group has not entered into any capital commitments in relation to its interest in the joint venture.

(Amounts in millions of Russian Rubles, unless otherwise stated)

18. Property, plant and equipment

	Buildings	Other	Construction in progress	Total
Cost				
At 1 January 2010	2	79	–	**81**
Additions	6	14	115	**135**
Acquisition of a subsidiaries (Note 6)	–	–	650	**650**
Transfer from investment property (Note 15)	138	–	–	**138**
Disposals	(4)	(5)	–	**(9)**
At 31 December 2010	**142**	**88**	**765**	**995**
Additions	–	16	239	**255**
Acquisition of a subsidiaries (Note 6)	2,081	20	–	**2,101**
Disposals	(4)	(11)	–	**(15)**
At 31 December 2011	**2,219**	**113**	**1,004**	**3,336**
Depreciation and impairment				
At 1 January 2010	**(1)**	**(5)**	**–**	**(6)**
Depreciation charge for the year	(3)	(29)	–	**(32)**
Disposals	2	2	–	**4**
At 31 December 2010	**(2)**	**(32)**	**–**	**(34)**
Depreciation charge for the year	(62)	(28)	–	**(90)**
Impairment (Note 11)	–	–	(609)	**(609)**
Disposals	–	11	–	**11**
At 31 December 2011	**(64)**	**(49)**	**(609)**	**(722)**
Net book value				
At 31 December 2011	**2,155**	**64**	**395**	**2,614**
At 1 January 2011	**140**	**56**	**765**	**961**
At 1 January 2010	**1**	**74**	**–**	**75**

The amount of borrowing costs capitalised during the years ended 31 December 2011 and 2010 was RUR 107 million and RUR 47 million, respectively.

In 2011 the Group acquired GOK “Pekin”, which owns Project “Hotel and Office complex “Pekin” (Note 6).

In 2011 the Group performed impairment test and determined the recoverable amount as value in use of the project Kamelia (refers to a segment of hospitality under construction). As a result the Group recognised impairment loss in the amount of RUR 609 million (which is included in other operating expenses).

The major events and circumstances that led to the recognition of impairment were:

- Management of the Group has changed the concept of the project: increased future cost for room furnishing for the future appreciation and increase of perception of the customers.
- Reduction future cash flows from rental of hotel rooms in connection with change of a hotel management company.

The significant assumptions made relating the estimation of Kamelia’s value in use are set out below:

- Discount rate – 18% at the construction stage and 12.5% after entering of hotel in operation;
- period of hotel operation is from 2014 to 2018 in which it is planned to be sold.

(Amounts in millions of Russian Rubles, unless otherwise stated)

18. Property, plant and equipment (continued)

In 2010 the Group acquired Astanda, which owns “Kamelia Hotel” under construction (Note 6).

During 2010, the Group has transferred the building of Bolshaya Tatarskaya 35/4 from investment property to property plant and equipment due to the use of more than an insignificant part of the buildings by the Group for administrative purposes.

19. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Development rights	Other	Total
Cost				
1 January 2010	**–**	**675**	**18**	**693**
Goodwill on acquisition of subsidiary (Note 6)	–	–	–	**–**
Additions	–	–	23	**23**
31 December 2010	**–**	**675**	**41**	**716**
Goodwill on acquisition of subsidiary (Note 6)	92	–	–	**92**
Disposals	–	–	(4)	**(4)**
31 December 2011	**92**	**675**	**37**	**804**
Depreciation and impairment				
1 January 2010	**–**	**(17)**	**–**	**(17)**
Amortization	–	(205)	(12)	**(217)**
Impairment	–	(453)	**–**	**(453)**
31 December 2010	**–**	**(675)**	**(12)**	**(687)**
Amortisation	–	–	(11)	**(11)**
31 December 2011	**–**	**(675)**	**(23)**	**(698)**
Net book value				
31 December 2011	**92**	**–**	**14**	**106**
1 January 2011	**–**	**–**	**29**	**29**
1 January 2010	**–**	**658**	**18**	**676**

In 2011 the Group recognised goodwill in the amount of RUR 92 million which arose on acquisition of Citer Invest B.V (the project City-11). As of 31 December 2011 goodwill impairment testing conducted on the basis of the revaluation project City-11 as a cash generating unit.

The goodwill tested for impairment is allocated to the cash-generating unit that constitutes investment property under construction segment. The method for determining the fair value less cost to sell of the project City-11 as investment property under construction and significant assumptions made relating of this project are reflected in the Note 16.

In 2010 the Group recognised impairment of development rights in the amount of RUR 453 million relating to the part of Kuntsevo project which relates to real estate held for sale under construction segment and will not be completed.

In 2010 the amortization of development rights in the amount of RUR 205 million was capitalized as part of inventory property.

(Amounts in millions of Russian Rubles, unless otherwise stated)

20. Inventory property

	2011	2010
At 1 January	**16,195**	**13,894**
Construction costs incurred	4,876	2,860
Interest capitalised	1,373	751
Transfer from investment property (Note 15, 16)	389	6,919
Transfer to investment property under construction (Note 16)	–	(1,863)
Disposal of Hals-Technopark	–	(2,287)
Property sold (Note 8)	(46)	(3,240)
Reverse of write-down / (write-down) of inventory to net realizable value	2	(839)
At 31 December	**22,789**	**16,195**

In 2011 “Vsevolzhsky” project in the amount of RUR 389 million was transferred from investment property under construction to inventory property as the Group’s management changed the concept of these projects to residential developments with a view to sale.

In 2010 the Group transferred the tower “B” project Skylight in the amount of RUR 1,863 million from inventory property to investment property under construction as a result of concept change and intention to redevelop the project for the future earning of rental income and capital appreciation. Initial concept of developing the properties for sale in the ordinary course of business was reconsidered to generate higher economic benefits from the project.

In 2010 “Povarskaya” project in the amount of RUR 1,698 million held by Hals-Technopark JSC, a subsidiary of the Group, was transferred from investment property under construction to inventory property as the Group’s management changed the concept of this project to residential development with a view to sale. In 2010 the project was derecognised as the Group lost control over Hals Technopark JSC.

In 2010 “Gorki-8” project in the amount of RUR 3,151 million and “Pekin” project in the amount of RUR 2,028 million were transferred from investment property under construction to inventory property as the Group’s management changed the concept of these projects to residential developments with a view to sale.

In 2010 other projects in the amount of RUR 42 million were transferred from completed investment property to inventory as the Group’s management changed the concept of these projects to residential developments with a view to sale.

As of 31 December 2011 and 2010 the Group tested inventory property for recoverability. As a result of the test, in the year ended 31 December 2011 the Group recognised reverse of write down in the amount of RUR 2 million and in the year ended 31 December 2010 the Group recognised loss on inventory property write off to net realizable value in the amount of RUR 839 million.

As at 31 December 2010 the carrying amount of inventories carried at fair value less costs to sell was RUR 3,954 million.

In the years ended 31 December 2011 and 2010 the Group capitalized staff costs in inventory properly (project “Gorki-8”) in the amount of RUR 3.8 million and RUR 8.1 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

21. Trade and other receivables

Current financial assets	31 December 2011	31 December 2010	1 January 2010
Trade receivables			
Trade receivable from third parties	102	190	49
Trade receivable from related parties	13	2	20
	115	**192**	**69**
Other receivables			
Other receivable from third parties	379	345	549
Other receivable from related parties	125	97	176
	504	**442**	**725**
	619	**634**	**794**

Other current financial assets	31 December 2011	31 December 2010	1 January 2010
Other financial assets	609	–	60
	609	**–**	**60**

Non-current financial assets	31 December 2011	31 December 2010	1 January 2010
Other financial assets	509	–	–
	509	**–**	**–**

As of 31 December 2011 in the long-term and short-term other financial assets represented the amortized cost of receivables from the sale of ZAO RTI Estate (Note 6) in the amount of RUR 395 and RUR 244 million, respectively, and other receivables in the amount of RUR 114 million and RUR 365 million, respectively. The effect of discounting of the other receivables is reflected in the financial expenses (Note 13).

Trade and other receivables are neither past due nor impaired. The Group holds no collateral in respect of these receivables.

(Amounts in millions of Russian Rubles, unless otherwise stated)

22. Loans and notes receivable

	Interest rate %	Maturity	31 December 2011	31 December 2010	1 January 2010
Current - third parties:					
City-Hals	18.00%	2010	–	–	47
Other Third Parties	Various	2010	–	–	8
Other Third Parties	Various	2012	9	3	–
			9	**3**	**55**
Current - related parties:					
Amiral B.V.	12.00%	2010	–	–	46
Amiral B.V.	14.00%	2010	–	–	82
Hals-Invest-Development	11.75%	2010	–	–	8
Hals-Service	The rate of the Central Bank (RF) + 1%	2010	–	–	6
Kamelia	The rate of the Central Bank (RF) + 1%	2010	–	–	8
Daev Project	0.00%	2010	–	–	54
Zorge Project	14.00%	2010	–	–	5
Zorge Project	20.60%	2010	–	–	20
Zorge Project	21.00%	2010	–	–	8
Milutinsky Project	20.60%	2010	–	–	5
Enform	The rate of the Central Bank (RF) + 1%	2010	–	–	64
SistemApsys Financing S.A.R.L.	12.00%	2011	–	811	153
SistemApsys S.A.R.L	12%	2010	–	–	27
Hals-Technopark	10.50%	2012	145	66	–
Other Related Parties	Various	2010	–	–	117
			145	**877**	**603**
			154	**880**	**658**
Non-current - related parties					
SistemApsys S.a.r.l	6.50%	2011	–	–	1,225
SistemApsys Financing S.A.R.L.	8.79%	2015	860	–	–
Hals-Invest-Development	9.80%	2017	2,595	–	–
Hals-Invest-Development	10.50%	2017	31	11	–
Hals-Invest-Development	10.75%	2017	295	268	–
Hals-Invest-Development	11.50%	2017	12	672	571
Hals-Invest-Development	11.75%	2017	10	9	8
Hals-Invest-Development	11.875%	2017	583	–	–
Hals-Invest-Development	12.00%	2017	700	–	–
Hals-Invest-Development	17.00%	2017	161	127	127
Hals-Invest-Development	18.00%	2017	1,823	1,215	–
Other Related Parties	Various	2011	–	–	3
Other Related Parties	Various	2020	4	–	1
			7,074	**2,302**	**1,935**
			7,228	**3,182**	**2,593**

Loans and notes receivable are neither past due nor impaired.

23. Cash and short term deposits

	31 December 2011	31 December 2010	1 January 2010
Cash at bank and on hand	132	49	126
Short-term deposits	1,906	644	32
	2,038	**693**	**158**

The weighted average interest rate on demand deposits as of 31 December 2011, 31 December and 1 January 2010 was 3%, 2% and 2% respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

24. Other non-financial assets

	31 December 2011	31 December 2010	1 January 2010
Other non-current			
Advances issued for construction of investment property	2,232	2,500	2,024
Advances issued for construction of inventory property	3,672	1,633	307
Advances issued for construction of property, plant and equipment	207		
	6,111	**4,133**	**2,331**
Other current assets			
Advances issued for construction of inventory property	221	180	236
Advance payments for taxes	45	306	327
Other current non-financial assets	106	50	165
	372	**536**	**728**

25. Equity

At 1 January 2010 the Company had 11,217,094 common shares issued and 11,205,877 shares outstanding. Nominal value of one share is equal to RUR 50.

In January 2010 the Group purchased additional shares from management for the amount of RUR 113 million, resulting in an increase in treasury stock by 123,388 shares.

In March-April 2010 the Group sold treasury stock of 129,045 shares for the amount of RUR 133 million, RUR 118 million of which were paid in cash and the remainder was unpaid as of 31 December 2011.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the years ended 31 December 2011 and 2010 is as follows:

	Total shares authorised and issued	Treasury shares	Total shares authorised, issued and outstanding
	Thousands	*Thousands*	*Thousands*
As of 1 January 2010	**11,217**	**(11)**	**11,206**
Acquisition of treasury shares	–	(123)	(123)
Sale of treasury shares	–	129	129
As of 31 December 2010	**11,217**	**(5)**	**11,212**
As of 31 December 2011	**11,217**	**(5)**	**11,212**

Additional paid in capital includes translation gains arose on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly ventures in prior years when the functional currency of the Group was US dollar and gains on purchase and sale of treasury shares.

(Amounts in millions of Russian Rubles, unless otherwise stated)

26. Interest bearing loans and borrowings

	Interest rate %	Maturity	31 December 2011	31 December 2010	1 January 2010
Current interest-bearing loans and borrowings from related parties					
VTB	MOSPRIME +5.12%	2010	–	–	4,594
VTB	15.0%	2010	–	–	817
VTB	9.5%	2012	34,682	–	–
VTB	10.15%	2010	–	–	758
VTB	The rate of the Central Bank (RF) + 0.25%	2011	–	500	–
Other Related Parties	Various		–	–	153
Other Related Parties	Various		3	3	–
			34,685	**503**	**6,322**
Current interest-bearing loans and borrowings from third parties					
Raiffeisenbank	MOSPRIME + 5.5%	2010	–	–	634
Merrill Lynch International	LIBOR + 5.35%	2011	–	2,139	–
GazPromBank	12.5%	2011	–	792	–
Bonds 1	15.0%	2010	–	–	13
Bonds 2	12.0%	2010	–	–	120
Other Third Parties	Various		9	16	351
			9	**2,947**	**1,118**
Total current interest-bearing loans and borrowings			**34,694**	**3,450**	**7,440**
Non-current interest-bearing loans and borrowings from related parties					
VTB	8.0%	2015	260	–	–
VTB	8.0%	2017	2,825	–	–
VTB	9.0%	2015	65	–	–
VTB	9.5%	2012	–	32,048	22,081
VTB	9.5%	2013	20,951	13,295	3,359
VTB	9.5%	2015	3,033	2,608	–
VTB	9.5%	2019	1,050	656	–
VTB	9.5%	2020	3,256	–	–
VTB	12%	2016	7,004	–	–
VTB	The rate of the Central Bank (RF) + 0.25%	2014	3,970	1,337	–
VTB	The rate of the Central Bank (RF) + 0.25%	2015	4,035	3,124	–
Other Related Parties	Various	2015	–	–	34
			46,449	**53,068**	**25,474**
Non-current interest-bearing loans and borrowings from third parties					
Emmomax International N.V	8.15%	2018	1,162	–	–
Vnesheconombank	9.0%	2014	2,150	1,997	1,911
Merrill Lynch Internationa	LIBOR + 5.35%	2011	–	–	2,124
GazPromBank	12,5%	2011	–	–	786
Bonds 1	15.0%	2014	–	–	3,000
Bonds 2	12.0%	2014	–	–	2,000
Other Third Parties	Various	Various	151	248	11
			3,463	**2,245**	**9,832**
Total non-current interest-bearing loans and borrowings			**49,912**	**55,313**	**35,306**
Total interest-bearing loans and borrowings			**84,606**	**58,763**	**42,746**

(Amounts in millions of Russian Rubles, unless otherwise stated)

26. Interest bearing loans and borrowings (continued)

The schedule of repayment of debt as at 31 December 2011 is as follows:

Year ended 31 December 2011	
2012	34,694
2013	20,951
2014	6,120
2015	7,544
2016	7,004
2017	2,825
2018	1,162
2019	1,050
2020	3,256
Total	**84,606**

VTB

In January 2011 the Group modified the repayment terms of the credit agreement for long-term financing of the Gorki-8 (land plot) project with the limit of USD 15.6 million (RUR 475 million). The repayment date was reagreed from April 2011 to July 2015. As a result no substantial modification of the terms of an existing liability occurred. As of 31 December 2011 the loan facility was utilized in the amount of RUR 475 million.

In January 2011 the Group signed new loan agreement with VTB for the credit line in amount of RUR 12,674 million and the interest rate of 12.0% for the purpose of financing the residential real estate project Gorki-8 (land plot). The loan is to be repaid in January 2016. As of 31 December 2011 the loan facility was utilized in the amount of RUR 6,506.0 million.

In January 2011 the Group agreed with VTB to increase the limit on the corporate credit facility up to RUR 23,508 million which was supposed to be used for current activity and project financing as well as refinancing. In September 2011 the Group agreed with VTB to reduce the limit on the corporate credit facility to RUR 18,508.2 million. As of 31 December 2011 the loan facility was utilized in the amount of RUR 18,508.2 million.

In April 2011 the Group signed the credit agreement to finance its subsidiaries. Under these credit facilities VTB will provide the financing of up to USD 84 million (RUR 2,371 million) and the interest rate of 8.0%. The loan is to be repaid in December 2017. As of 31 December 2011 the loan facility was utilized in the amount of USD 84 million (RUR 2,704.5 million).

In April 2011 the Group signed the credit agreement with the limit of USD 119 million (RUR 3,272 million) and the interest rate of 9% for the purpose of financing the commercial real estate project multifunctional terminal complex “City-11”. The loan is to be repaid in November 2015. As of 31 December 2011 the loan facility was utilized in the amount of USD 2 million (RUR 64.9 million).

In September 2011 the Group signed new credit agreement with the limit of RUR 5,000 million and the interest rate of 9.5% for the corporate purpose. The loan is to be repaid in December 2020. As of 31 December 2011 the loan facility was utilized in the amount of RUR 3,203 million.

In October 2011 the Group signed the credit agreement with the limit of RUR 4,253 million and the interest rate of 8% for the purpose of financing project Kamelia Hotel. The loan is to be repaid in December 2015. As of 31 December 2011 the loan facility was utilized in the amount of RUR 257 million.

26. Interest bearing loans and borrowings (continued)

VTB (continued)

In the year of 2010 the interest rates of the credit lines opened by VTB in 2007-2009 were changed from 15.00%, 10.15% and MOSPRIME+5.12 % to 9.5%. The credit terms of the loans which were to be repaid in 2010 were modified and prolonged to 2012-2013 years.

In April 2010 the Group signed the credit agreement in the amount of RUR 475.4 million to finance the Group`s company Gorki-8 Ltd operating activities. The interest rate on this credit facility is the Central Bank rate plus 0.25% with the repayment in April 2011. As of 31 December 2010 the loan facility was fully utilized.

In April 2010 the Group signed the credit agreement for the purpose of purchase of 50% share in CJSC Ekvivalent in the amount of USD 80 million (RUR 2,344 million) with the 9.5 % interest rate. The loan is to be repaid in April 2015. As of 31 December 2010 the loan facility was fully utilized.

In May 2010 the Group signed the credit agreement with the limit of RUR 573.8 million and the interest rate of 9.5% for the purpose of financing the commercial real estate project DM Lubyanka. The loan is to be repaid in January 2019. In October 2010 the Group agreed with VTB to increase the limit of this loan facility up to RUR 5,780 million. As of 31 December 2011 and 31 December 2010 the loan facility was utilized in the amount of RUR 959.4 million and RUR 641.7 million, respectively.

In June 2010 the Group signed the credit agreement with the limit of RUR 2,300 million and the interest rate as at the Central Bank rate plus 0.25% for the purpose of financing the residential real estate project Elninskaya, 28. The loan is to be repaid in June 2014. As of 31 December 2010 the loan facility was utilized in the amount of RUR 220.7 million. As of 31 December 2011 the loan was repaid.

In July 2010 the Group signed the credit agreement with the limit of RUR 3,183.3 million and the interest rate as at the Central Bank rate plus 0.25% for the purpose of financing the commercial real estate project Gorki-8 (land plot). The loan is to be repaid in July 2015. As of 31 December 2011 and 31 December 2010 the loan facility was utilized in the amount of RUR 3,135.8 million and RUR 3,027.5 million, respectively.

In September 2010 the Group signed the credit agreement with the limit of RUR 5,374 million and the interest rate as at the Central Bank rate plus 0.25% for the purpose of financing the commercial real estate project Skylight. The loan is to be repaid in September 2014. As of 31 December 2011 and 31 December 2010 the loan facility was utilized in the amount of RUR 3,735.3 million and RUR 1,095.1 million, respectively.

During 2010 the limit on the credit facility for the purpose of financing the current activity as well as refinancing purposes was increased up to RUR 17,461 million. As of 31 December 2010 the loan facility was utilized in the amount of RUR 12,409.7 million.

Emmomax International N.V

As a result of acquisition of Citer Invest B.V. in May 2011 the Group inherited liability to Emmomax International N.V in the amount of USD 53.5 million (RUR 1,516.2 million) principal amount with the credit limit of USD 55 million (RUR 1,588.8 million) and accrued interest in the amount of USD 9.0 million (RUR 256.2 million) with the interest rate of 8.15% for the purpose of financing the commercial real estate project multifunctional terminal complex “City-11”. The loan is to be repaid in March 2018. As of 31 December 2011 the Group before maturity repaid the principal amount of USD 28.7 million (RUR 898.8 million).

(Amounts in millions of Russian Rubles, unless otherwise stated)

26. Interest bearing loans and borrowings (continued)

Ruble Bond Public Offering Series 1 and 2

In April 2010, the Russian bonds series 1 and 2 were fully redeemed in the amount of RUR 5,000 million. The redemption was financed by a loan obtained from VTB in 2009 for which credit facilities were extended in April.

Merrill Lynch International

As of 31 December 2010, the Group had RUR 2,134 million outstanding balance under this credit facility. The loan was fully repaid in 2011.

Vnesheconombank

In July 2010 the Group converted the currency of the loan agreement with Vneshekonombank from USD to RUR. The interest rate was not changed. As of 31 December 2011 and 2010 the Group had RUR 1,701 million and RUR 1,701 million, respectively, outstanding under this credit facility.

GazPromBank

As of 31 December 2010 the Group had RUR 792 million outstanding under this credit facility. The loan was fully repaid in 2011.

Raiffeisenbank

The loan outstanding as of 1 January 2010 was repaid in 2010.

27. Trade and other payables

	31 December 2011	31 December 2010	1 January 2010
Trade payables			
Trade payable to third parties	625	745	1,096
Trade payable to related parties	6	1	21
	631	**746**	**1,117**
Other payables			
Other payable to third parties	535	447	798
Other payable to related parties	–	–	–
	535	**447**	**798**
	1,166	**1,193**	**1,915**

As of 31 December 2011 the Group change the presentation of trade and other payables. Trade payables relate to investment projects in the active stage of construction. The rest of the accounts payable is included in other payables.

As of 31 December 2010 and 1 January 2010, the Group has reclassified some of the other payables to the trade payables in the amount of RUR 317 million and RUR 197 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

28. Other non-financial liability

	31 December 2011	31 December 2010	1 January 2010
Non-current			
Advances from state authority	–	351	1,949
Advances from customers	148	751	–
Tenants' guarantee deposits	177	–	–
Deferred rent income	144	–	–
Advances under agency agreements	–	98	966
	469	**1,200**	**2,915**
Current liability			
Advances from state authority	1,375	1,024	2,806
Advances from customers	3,186	226	3,656
Advances under agency agreements	2,154	2,182	897
	6,715	**3,432**	**7,359**

As of 31 December 2010 due to change in presentation, the Group has reclassified some of the advances from state authority to the advances under agency agreements in the amount of RUR 1,782 million.

29. Net assets attributable to non-controlling participants in LLC's

	2011	2010
At 1 January	**41**	**157**
Net loss attributable to non-controlling participants in LLCs (Note 12)	(21)	(116)
Disposals of subsidiary (Note 6)	(20)	
At 31 December	**–**	**41**

30. Fair values of financial assets and financial liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements.

	Carrying amount			Fair value		
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010	1 January 2010
Financial assets						
Trade and other receivables	1,228	634	794	1,228	634	794
Loans and notes receivable	7,228	3,182	2,593	7,228	3,182	2,593
Other financial assets	509	–	60	509	–	60
Cash and short-term deposits	2,038	693	158	2,038	693	158
	11,003	**4,509**	**3,605**	**11,003**	**4,509**	**3,605**
Financial liabilities						
Interest-bearing loans and borrowings:						
Floating rate borrowings	(8,005)	(7,100)	(7,352)	(8,005)	(7,100)	(7,352)
Fixed rate borrowings	(76,601)	(51,663)	(35,394)	(74,830)	(51,663)	(35,394)
Trade and other payables	(1,166)	(1,193)	(1,915)	(1,166)	(1,193)	(1,915)
	(85,772)	**(59,956)**	**(44,661)**	**(84,001)**	**(59,956)**	**(44,661)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

30. Fair values of financial assets and financial liabilities (continued)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade and other receivables, trade and other payables and other current financial assets approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term and short-term loans and notes receivable are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation as at 31 December 2011, 31 December and 1 January 2010 the carrying amounts of such loans and notes receivable are not materially different from their fair values.
- The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms and remaining maturities. The carrying values of floating rate loans and borrowings approximate their fair values as at 31 December 2011, 31 December and 1 January 2010.
- The fair value of fixed rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms and remaining maturities. The carrying values of fixed rate loans and borrowings are not materially different from their fair value as at 31 December and 1 January 2010 as the level of contracted interest rates approximates market interest rates for comparable instruments. The carrying values of fixed rate loans and borrowings as at 31 December 2011 are accounted for at amortized cost.

31. Transactions with related parties

The following table provides the details of transactions that have been entered into with related parties for the years ended 31 December:

	2011	**2010**
Transactions with related parties		
Services provided to associates		
Services provided to SistemApsys	19	11
Services provided to other associates	–	5
	19	**16**
Interest income from associates		
Interest income from SistemApsys S.A.R.L. and Hals-Invest-Development	439	253
Interest income from other associates	10	8
	449	**261**
Interest expense to parent		
Interest expense to VTB	(5,547)	(3,721)
	(5,547)	**(3,721)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

31. Transactions with related parties (continued)

	31 December 2011	31 December 2010	1 January 2010
Amounts due from associates			
Trade and other receivables from other associates	138	99	196
Loans and notes receivable from SistemApsys Financing S.A.R.L. and Hals-Invest-Development	7,070	3,113	2,119
Loans and notes receivable other associates	149	66	418
	7,357	**3,278**	**2,733**
Amounts due to associates			
Loans and borrowings from other associates	3	3	186
Trade and other payables from other associates	6	1	22
Other non-financial liability from Hals-Invest-Development	371	354	604
	380	**358**	**812**
Amounts due from shareholder			
Cash and short-term deposits in VTB	2,032	683	–
	2,032	**683**	**–**
Amounts due to shareholders			
Loans and borrowings from VTB	81,131	53,567	31,610
	81,131	**53,567**	**31,610**

Major related parties with whom transactions and outstanding balances have been during the period are as follows:

- Parent of the Group – VTB;
- associates and jointly controlled entities – Hals-Invest-Development, SistemApsys S.A.R.L., Telecom-Development.

Group pledged collateral for loans received from VTB as disclosed in Note 26.

Related party transactions are on terms equivalent to arm's length transactions.

Compensation of key management personnel of the Group for the years ended 31 December:

	2011	2010
Short-term employee benefits	144	92
Other long-term benefits	1	1

32. Financial risk management objectives and policies

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations. The Group expends loans and notes to associates and joint ventures to finance projects' development.

The Group is exposed to market risk, credit risk and liquidity risk.

(Amounts in millions of Russian Rubles, unless otherwise stated)

32. Financial risk management objectives and policies (continued)

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. Main market prices risks affecting the Group comprise: interest rate risk and foreign currency risk. The financial instruments held by the Group that are affected by market risk are principally interest bearing loans and borrowings, short-term deposits, loans and notes issued.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and borrowings with floating interest rates. The majority of loans and borrowings are at fixed rates and, accordingly, interest rate risk is limited. The Group does not use derivatives to manage its interest rate risk exposure.

The analysis below describes reasonably possible movements in interest rates with all other variables held constant, showing the impact on loss before tax. It should be noted that the impact of movement in the variable is not necessarily linear.

31 December 2011	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Refinancing rate of Central Bank of the Russian Federation	2.49%	191
	-2.49%	(191)

31 December 2010	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Libor	+1%	21
	-0.25%	(5)
Refinancing rate of Central Bank of the Russian Federation	+1%	50
	-0.75%	(37)

1 January 2010	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Libor	+1%	21
	-0.25%	(5)
Mosprime	+6%	314
	-5%	(261)

(Amounts in millions of Russian Rubles, unless otherwise stated)

32. Financial risk management objectives and policies (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the loans and borrowings and cash and short-term deposits denominated in USD. The Group does not use derivatives to manage its foreign currency risk exposure.

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on loss before tax
31 December 2011	12.50%	(766)
	-12.50%	766
31 December 2010	+8.9%	(866)
	-8.9%	866
1 January 2010	+14.8%	(826)
	-14.8%	826

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its rental activities and from its financing activities, including deposits with banks and financial institutions.

To manage credit risk related to cash and short-term deposits, the Group maintains its available cash, mainly in VTB (principal shareholder of the Group). Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Loans and notes receivables are extended to 50% associates and joint ventures for the development of underlying projects. The Group closely oversees the projects development and progress which mitigates its credit risk in this respect.

Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a rent agreement. Outstanding tenants' receivables are regularly monitored.

For inventory property sales customer credit risk is managed by requiring customers to pay advances before transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

(Amounts in millions of Russian Rubles, unless otherwise stated)

32. Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. If actual cash is below the forecasted amount, the Group has guaranteed financing from its principal shareholder, VTB.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
As at 31 December 2011						
Interest-bearing loans and borrowings	–	8	36,404	50,620	13,376	**100,407**
Trade and other payables	–	1,166	–	–	–	**1,166**
	–	**1,174**	**36,404**	**50,620**	**13,376**	**101,573**
As at 31 December 2010						
Net assets attributable to non-controlling participants in LLCs	41	–	–	–	–	**41**
Interest-bearing loans and borrowings	–	84	3,502	64,893	1,144	**69,623**
Trade and other payables	–	1,193	–	–	–	**1,193**
	41	**1,277**	**3,502**	**64,893**	**1,144**	**70,857**
As at 1 January 2010						
Net assets attributable to non-controlling participants in LLCs	157	–	–	–	–	**157**
Interest-bearing loans and borrowings	–	400	11,834	42,805	64	**55,103**
Trade and other payables	–	1,915	–	–	–	**1,915**
	157	**2,315**	**11,834**	**42,805**	**64**	**57,175**

Capital management

At 31 December 2011, 31 December and 1 January 2010 the Group has negative net assets.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the borrowings from VTB and other lenders or issue new shares.

33. Segment information

For management purposes, the Group is organised into operating segments based on nature of property and has six reportable segments in the year ended 31 December 2011:

- real estate held for sale – ready for use by the buyer (the project Nahimovsky, the project Michurinsky, the project Elninskaya, the project Gorki (town houses));
- real estate held for sale – under construction (the project Gorki (land plot for future construction of apartments), the project Literator, the project Pekin (apartments), the project Vsevologsky, the project NIIDAR (apartments));
- investment property – under construction (the major projects - City-11, SkyLight, Detsky Mir Lubyanka, NIIDAR);
- investment property – submitted to the operating lease (the project Danilovsky Fort, the project 8 Marta, the project Detsky Mir Kazan);
- hospitality – under construction (the project Kamelia);
- hospitality – rented apartments (the project Pekin (hotel)).

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating results as defined below. This performance indicator is measured on a basis that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on accrual basis, and management accounts are prepared on cash basis.

Segment revenue is cash inflows reported in the Group's management accounts that are directly attributable to a segment being cash received or non-cash forms of settlement (settlements in the form of offset and through notes instruments) from customers for sale of residential or investment property under construction, or for operating rent of premises and rendering of services.

Segment expense is cash outflows reported in the Group's management accounts that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to external, intergroup counterparties and expenses relating to transactions with other segments. Segment expense includes also net cash flows from investment and financing activity of the Group.

Segment result is segment revenue less segment expense that is equal to movement in cash flows and non-cash settlements for the reporting period.

Segment assets and liabilities are not reviewed by the Group's chief operating decision maker on other than consolidated basis and presented in these consolidated financial statements.

The following tables present measures of segment revenues and segment results on management accounts in accordance with IFRS 8 and a reconciliation of revenue and segment result used by management for decision making and revenue and loss before tax per the consolidated financial statements prepared under IFRS:

(Amounts in millions of Russian Rubles, unless otherwise stated)

33. Segment information (continued)

The year ended 31 December 2011

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	Total
Segment revenue	**2,101**	**38**	**281**	**425**	**–**	**357**	**3,202**
Accrual vrs. cash basis	–	–	–	–	–	–	(2,467)
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**735**

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	Total
Segment result	**897**	**(278)**	**315**	**(2,816)**	**(123)**	**(1,604)**	**(3,609)**
Accrual vrs. cash basis	–	–	–	–	–	–	647
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,962)**

The year ended 31 December 2010

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	Total
Segment revenue	**1,270**	**59**	**93**	**47**	**–**	**–**	**1,469**
Accrual vrs. cash basis	–	–	–	–	–	–	2,348
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**3,817**

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	Total
Segment result	**487**	**(395)**	**(391)**	**(297)**	**(381)**	**–**	**(977)**
Accrual vrs. cash basis	–	–	–	–	–	–	(5,139)
Loss before tax per IFRS consolidated financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**(6,116)**

* *Includes rental income, sales of inventory property and other sales per the consolidated statement of comprehensive income*

** *Including impairment losses by segment hospitality under construction in the amount of RUR 609 million*

(Amounts in millions of Russian Rubles, unless otherwise stated)

34. Guarantees and pledges

Warranties and guarantees of work performed – The Group is contractually responsible for the quality of construction works performed subsequent to the date at which the relevant object was handed over, generally for a period up to 2 years subsequent to handover. Based upon prior experience with warranty claims, which have not been significant, no contingent liabilities have been recorded in the Group's consolidated financial statements in relation to warranties and guarantees for work performed.

Pledges – As of 31 December 2011 and 2010 common shares of the Group's entities have been pledged as follows:

Group`s company	Projects	Number of shares pledged	Number of shares pledged as a percentage of total shares
OJSC Lubyanka-Development	DM Lubyanka	22,004,320	100%
OJSC Sistema-Temp	Bol`shaya Tatarskaya, 35	4,680,000	100%
OJSC Beiging-Invest	Pekin (Bol`shaya Sadovaya)	1,350	90%
CJSC EZNCh	L`va Tolstogo, 23 (Literator)	100	100%
CJSC Kuntsevo-Invest	Rublevskoe highway, 111 A; Elninskaya, 28 A	5,000	100%
CJSC Hals-Tehnopark	Povarskaya, 8	1,890,900	50%
CJSC Ekvivalent	Nevskaja ratusha	500	50%
CiTer Invest B.V.*	City-11	101	50.5%

* *in July 2011 Group pledged 50.5% stake in CiTer Invest B.V.*

As of 31 December 2011 and 2010 the Group pledged land plots (inventory property) in the Odintsovsky Region (Soloslovo) with a carrying amount of RUR 10,793 million and RUR 5,823 million, respectively, as security under the credit line from VTB in the amount of RUR 4.0 billion and RUB 4.0 billion, respectively.

As of 31 December 2010 the Group pledged Business Center "Danilovsky Fort" (completed investment property) with a carrying amount of RUR 2,178 million, as security under the credit line from VTB in the amount of RUR 792 million. The loan was fully repaid in 2011.

As of 31 December 2011 and 2010, the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region (inventory property) with a carrying amount of RUR 1,449 million and RUR 1,442 million, respectively, as security under the loan received from Vnesheconombank in the amount of RUR 1,701 and RUR 1,701 million, respectively.

The Group has guaranteed the credit line of RUR 6,152 million obtained by Hals-Invest-Development (Group's joint venture with Apsys) from Eurohypo and pledged loan issued to this joint venture (Note 22) in the amount of RUR 1,500 million as of 31 December 2010. As of 31 December 2010 Hals-Invest-Development utilised the credit line in the amount of RUR 2,130 million, as of 31 December 2011 the credit line fully was repaid.

As of 31 December 2011 the Group pledged Detsky Mir Lubyanka (investment property under construction) with a carrying amount of RUR 5,901 million as security under the credit line from VTB in the amount of RUR 959 million.

34. Guarantees and pledges (continued)

As of 31 December 2011 the Group pledged Detsky Mir Kazan (completed investment property) with a carrying amount of RUR 100 million as security under the credit line from VTB in the amount of RUR 25 million.

As of 31 December 2011 the Group pledged land plots and buildings (inventory property) in Khamovniki (the project Literator) with a carrying amount of RUR 2,614 million, as security under the credit line from VTB in the amount of RUR 18,508 million.

The Group has guaranteed the credit line of RUR 6.786 million obtained by Hals-Technopark (Group's joint venture) from VTB. As of 31 December 2011 Hals-Technopark utilised the credit line in the amount of RUR 246 million.

35. Commitments and contingencies

Operating environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory framework which would meet the requirements of a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

In 2011-2012, the Government of the Russian Federation continued measures to support economy in order to overcome consequences of the global financial crisis. While there are signs of economic recovery, the persisting uncertainty over the future economic growth, access to capital and cost of capital could affect the Group's financial position, results of operations and business prospects.

The Group's management takes all the steps necessary to support the economic stability of the Group in the current situation. However, any further worsening of the above situation may have an adverse effect on the Group's performance and financial position. Currently, it seems impossible to determine the extent of the effect.

Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

35. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

During the years ended 31 December 2011 and 2010, the Group entered into a number of investing activities in another tax jurisdiction, their tax effect is described as “Effect of tax rates in other jurisdictions” in Note 14 “Income taxes”. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. Possible liabilities, which were identified by management at the reporting date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these consolidated financial statements could be up to approximately RUR 1,874 million and RUR 827 million for the parent company and its subsidiaries and for the for associated companies and joint ventures, respectively.

There is no clarity in Russian civil and tax law regarding the nature of the (co-)investment agreements. During last several years largely consistent approach to tax treatment of such contracts has been accepted by tax authorities and courts. In July 2011 Plenum of Highest Arbitration Court has issued civil law interpretation of such contracts. This interpretation is different from that widely accepted previously. Such change in interpretation can result in different tax treatment of (co-)investment agreements that the Company has as of 31 December 2011, as well as those which the Company had in the previous periods still open for the tax audit. Taking into account the above court interpretation has not addressed tax matters, at the moment, it is difficult to predict whether and to which extent the tax treatment will change. If tax treatment changes it may result in material effect for the Company. However at the moment respective amounts cannot be accurately estimated.

Industry regulation

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land Code, the City Construction Code, the Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith, construction norms and regulations approved by the Ministry of Industry and Energy, and others. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

In addition, construction is subject to applicable environmental, fire safety and sanitary norms and regulations.

Legal proceedings

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group’s liability, if any, in all current and pending litigations or other legal proceedings will not have a material effect upon the financial condition, results of operations or liquidity of the Group, other than as is already reflected in these consolidated financial statements.

36. Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to 31 December 2011. A summary of significant commitments under construction contracts is provided below:

Gorki-8 (land plot) – The Group entered contractual agreements for construction of housing estate in Moscow Region. Commitments under these contracts amounted to RUR 6,088 million and RUR 14,594 million as of 31 December 2011 and 2010, respectively.

Skylight – The Group entered contractual agreements for construction of multifunctional complex with two office buildings in Moscow. Commitments under these contracts amounted to RUR 1,595 million and RUR 4,298 million as of 31 December 2011 and 2010, respectively.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 4,735 million and RUR 5,438 million as of 31 December 2011 and 2010, respectively.

Kamelia – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 4,178 million and RUR 4,651 million as of 31 December 2011 and 2010, respectively.

Elninskaya 28A – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 1,363 million and RUR 2,135 million as of 31 December 2011 and 2010, respectively.

City-11 – The Group entered contractual agreements for construction of multifunctional terminal complex “City-11”. Commitments under these contracts amounted to RUR 12,722 million as of 31 December 2011.

Literator – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 6,062 million as of 31 December 2011.

Operating leases

With a few exceptions, land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments.

Environmental regulations

Environmental laws and regulations impose certain restrictions and encumbrances on the properties that the Group holds or develops. Some of the land plots under development are located in areas that have special environmental protection. In addition, the development of a project may be subject to certain obligations, including planting of greenery and clean-up measures. These requirements may result in delays in the development of projects, or additional costs.

37. Subsequent events

In December 2011 the Group signed a purchase contract and in January 2012 acquired 50% of the shares of SistemApsys S.a r.l. for consideration of USD 41.7 million, which owns the shopping and entertainment complex «Leto» in S.Peterburg, bringing its ownership to 100%.

In January 2012 the Group agreed with VTB to increase the limit of the credit agreement for financing of the Leto project up to USD 190 million. The repayment date was prolonged from May 2012 to December 2016.

In February 2012 the Group signed new loan agreement with VTB for the credit line to finance the Povarskaya project in amount of RUR 980 million at 9.5% per annum with a maturity of five years.

In March 2012 the Group signed new loan agreement with VTB for the credit line to finance the Literator project in amount of RUR 1,780 million at 9.5% per annum with a maturity of three years.

In April 2012 the Group acquired 100% of the shares of JSC StroyPromOb’ekt for the amount of RUR 980 million, which owns 50% of the shares of JSC Hals-Technopark, a former associate of the Group. After the acquisition the Group owns 100% of the shares of JSC Hals-Technopark.