OAO Group of Companies PIK
Consolidated Interim Condensed Financial Statements
for the six-month period ended 30 June 2011

Contents

Consolidated Interim Condensed Statement of Financial Position

mln RUB	Note	30 June 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment		9,576	9,452
Intangible assets		24,313	22,844
Other investments		145	2
Deferred tax assets		105	334
Total non-current assets		**34,139**	**32,632**
Current assets			
Inventories		76,888	67,634
Other investments		180	778
Income tax receivable		175	87
Trade and other receivables		10,845	11,877
Cash and cash equivalents		2,503	4,350
Assets classified as held for sale	9	4,767	4,803
Total current assets		**95,358**	**89,529**
Total assets		**129,497**	**122,161**
EQUITY AND LIABILITIES			
Equity			
Share capital		30,843	30,843
Additional paid-in capital		20,082	20,082
Reserve resulting from additional share issue		(28,506)	(28,506)
Retained earnings		(21,578)	(24,759)
Total equity attributable to equity holders of the Company		**841**	**(2,340)**
Non-controlling interest		350	345
Total equity		**1,191**	**(1,995)**
Non-current liabilities			
Loans and borrowings	17	28,937	4,916
Trade and other payables		78	20
Deferred tax liabilities		1,960	2,093
Total non-current liabilities		**30,975**	**7,029**
Current liabilities			
Loans and borrowings	17	16,095	39,062
Trade and other payables		56,509	53,451
Provisions	16	21,012	21,360
Income tax payable		219	423
Liabilities classified as held for sale	9	3,496	2,831
Total current liabilities		**97,331**	**117,127**
Total liabilities		**128,306**	**124,156**
Total equity and liabilities		**129,497**	**122,161**

These consolidated interim condensed financial statements were approved by the Board of Directors on 20 September 2011 and were signed on its behalf by:

Pavel A. Poselenov
President

Andrey M. Rodionov
Vice-President, Economics and Finance

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19.

Consolidated Interim Condensed Statement of Comprehensive Income

mln RUB	Note	Six–month period ended 30 June 2011	Six–month period ended 30 June 2010
Revenue	10	22,794	15,126
Cost of sales		(19,060)	(15,170)
Gross profit		**3,734**	**(44)**
Distribution expenses		(301)	(222)
Administrative expenses		(1,913)	(1,780)
Impairment (losses) and reversal of impairment losses, net	14	1,710	(613)
Other income and expenses	15	543	79
Finance income	11	2,403	211
Finance costs	12	(2,160)	(4,283)
Share of loss of equity accounted investees, net of income tax		-	(33)
Profit/(loss) before income tax		**4,016**	**(6,685)**
Income tax (expense)/benefit	13	(830)	1,514
Profit/(loss) and total comprehensive income for the period		**3,186**	**(5,171)**
Attributable to:			
Owners of the Company		3,181	(5,131)
Non-controlling interests		5	(40)
Total comprehensive income for the period		**3,186**	**(5,171)**
Basic and diluted earnings/(loss) per share		6.45 RUB	(10.40) RUB

The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19.

Consolidated Interim Condensed Statement of Changes in Equity

	Attributable to equity holders of the Company					Non-controlling interest	Total equity
mln RUB	**Share capital**	**Additional paid-in-capital**	**Reserve resulting from additional share issue**	**Retained earnings**	**Total**		
Balance as at 1 January 2010	**30,843**	**20,082**	**(28,506)**	**(17,294)**	**5,125**	**555**	**5,680**
Loss and total comprehensive income for the period	-	-	-	(5,131)	(5,131)	(40)	(5,171)
Transactions with owners, recorded directly in equity							
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Change in non-controlling interests related to disposed subsidiary	-	-	-	-	-	(248)	(248)
Dilution of non-controlling interest in a subsidiary	-	-	-	-	-	6	6
Total transactions with owners	-	-	-	-	-	(242)	(242)
Balance as at 30 June 2010	**30,843**	**20,082**	**(28,506)**	**(22,425)**	**(6)**	**273**	**267**
Balance as at 1 January 2011	**30,843**	**20,082**	**(28,506)**	**(24,759)**	**(2,340)**	**345**	**(1,995)**
Profit and total comprehensive income for the period	-	-	-	3,181	3,181	5	3,186
Balance as at 30 June 2011	**30,843**	**20,082**	**(28,506)**	**(21,578)**	**841**	**350**	**1,191**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19.

Consolidated Interim Condensed Statement of Cash Flows

mln RUB	Six-month period ended 30 June 2011	Six-month period ended 30 June 2010
OPERATING ACTIVITIES		
Profit/(loss) for the period	**3,186**	**(5,171)**
Adjustments for:		
Depreciation and amortisation	339	383
Foreign exchange (gain)/loss, net	(894)	472
Loss/(gain) on disposal of property,plant and equipment	4	(6)
(Reversal of impairment loss)/impairment loss on non-current assets and inventory write downs	(1,710)	613
Share of loss of equity accounted investees, net of tax	-	33
Reversal of impairment/(impairment) of financial assets	(15)	528
Gain on disposal of a subsidiary	-	(331)
Interest expense, including penalties payable and reversal of penalties	789	3,283
Change in non-controlling interest in limited liability companies	59	-
Interest income	(115)	(211)
Income tax expense/(benefit)	830	(1,514)
Operating profit/(loss) before changes in working capital and provisions	**2,473**	**(1,921)**
Increase in inventories	(7,737)	(2,560)
Decrease/(increase) in trade and other receivables	448	(2,644)
Increase in trade and other payables	3,243	1,375
(Decrease)/increase in provisions	(348)	3,677
Cash flows utilised in operations before income taxes and interest paid	**(1,921)**	**(2,073)**
Income taxes paid	(1,027)	(32)
Interest paid	(2,626)	(1,852)
Cash flows utilised by operating activities	**(5,574)**	**(3,957)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	15	135
Interest received	-	14
Acquisition of property, plant and equipment	(181)	(81)
Acquisition of development rights and other intangible assets	(616)	-
Proceeds from sale of equity accounted investee	1,721	-
Loans advanced	(165)	(28)
Repayment of loans advanced	591	119
Cash flows from investing activities	**1,365**	**159**
FINANCING ACTIVITIES		
Proceeds from borrowings	13,048	7,076
Repayment of borrowings	(10,686)	(4,728)
Cash flows from financing activities	**2,362**	**2,348**
Net decrease in cash and cash equivalents	(1,847)	(1,450)
Cash and cash equivalents at beginning of period	4,350	3,417
Cash and cash equivalents at end of period	**2,503**	**1,967**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19.

Notes to the Consolidated Interim Condensed Financial Statements

1 Reporting entity

OAO Group of Companies PIK (the "Company") is a company domiciled in the Russian Federation. The consolidated interim condensed financial statements of the Company as at and for the six-month period ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in equity accounted investees.

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available upon request from the Company's registered office at 19 Barrikadnaya st., Moscow, 123001, Russian Federation or at www.pik.ru.

2 Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

3 Functional and presentation currency

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

4 Significant accounting policies

Adoption of amended and revised IFRSs

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2010, except that the Group has adopted those amended/revised standards mandatory for financial annual periods beginning on 1 January 2011.

Standards	**Effective for annual periods beginning on or after**
IAS 1 (Amended) *Presentation of Financial Statements*	1 January 2011
IAS 24 (Revised) *Related Party Disclosure*	1 January 2011
IAS 27 (Amended) *Consolidated and Separate Financial Statements*	1 July 2010
IAS 32 (Amended) *Financial instruments: Presentation*	1 February 2010
IAS 34 (Amended) *Interim Financial Reporting*	1 January 2011
IFRS 3 (Amended) *Business Combinations*	1 July 2010
IFRS 7 (Amended) *Financial Instruments: Disclosures*	1 January 2011

Amended IAS 1 *Presentation of Financial Statements* clarifies that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

Revised IAS 24 *Related Party Disclosures* provides a revised definition of a related party which includes new relationships. Revised IAS 24 became effective as at 1 January 2011 and requires retrospective application.

Amended IAS 27 *Consolidated and Separate Financial Statements* clarifies consequential amendments to other related International Financial Reporting Standards.

Amended IAS 32 *Financial Instruments: Presentation* incorporates changes in respect of the classification of rights issues and their accounting.

Amended IAS 34 *Interim Financial Reporting* provides additional examples to the list of events or transactions that require disclosure.

Amended IFRS 3 *Business Combinations* incorporates transitional requirements for contingent consideration from a business combination that occurred before the effective date of revised IFRS 3 and limited the accounting policy choice to measure non-controlling interest.

Amended IFRS 7 *Financial Instruments: Presentation* incorporates a number of clarifications to the existing disclosure requirements.

The above amendments and revisions did not have a significant effect on the Group's consolidated interim condensed financial statements.

New accounting pronouncements

A number of new Standards and amendments to Standards were not yet effective for the six-month period ended June 2011, and have not been applied in these consolidated interim condensed financial statements.

Standards	**Effective for annual periods beginning on or after**
IAS 1 (Amended) *Presentation of Financial Statements*	1 July 2012
IAS 12 (Amended) *Income Taxes*	1 January 2012
IAS 27 (Amended) *Consolidated and Separate Financial Statements*	1 January 2013
IAS 28 (Amended) *Investments in Associates and Joint Ventures*	1 January 2013
IFRS 9 *Financial Instruments*	1 January 2013
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 12 *Disclosure of Interests in other entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

Amended IAS 1 *Presentation of Financial Statements* requires a separate presentation of items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Amended IAS 1 will be effective for annual periods beginning on or after 1 July 2012 and requires retrospective application.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.*

The first and second phases of IFRS 9 *Financial Instruments* were finalised in November 2009 and October 2010, respectively, and relate to the recognition and measurement of financial assets and liabilities. The Group recognises that the new standard introduces many changes to the accounting for financial instruments. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued during 2011.

IFRS 13 *Fair Value Measurement* provides a revised definition of fair value, establishes a framework for measuring fair value and sets out expanded disclosure requirements for fair value measurements. IFRS 13 will be effective for annual periods beginning on or after 1 January 2013 and requires prospective application.

5 Estimates

The preparation of consolidated interim condensed financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim condensed financial statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

During the six-month period ended 30 June 2011 Management reassessed its estimates with respect to non-financial assets and inventories (note 14).

6 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2010.

7 Operating segments

(i) Segment profit and losses

mln RUB	Real estate development Six-month period ended 30 June		Construction segment Six-month period ended 30 June		Industrial segment Six–month period ended 30 June		Other Six-month period ended 30 June		Total Six-month period ended 30 June	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
External revenues	17,323	9,700	2,027	2,800	947	605	1,456	1,280	21,753	14,385
Inter-segment revenue	-	-	7,651	7,942	1,155	1,179	944	805	9,750	9,926
Total revenue for reportable segments	17,323	9,700	9,678	10,742	2,102	1,784	2,400	2,085	31,503	24,311
Interest income	174	253	-	1	-	1	-	1	175	256
Interest expense	(2,283)	(2,364)	(21)	(27)	-	-	(86)	(47)	(2,390)	(2,438)
Depreciation and amortisation	19	176	88	87	76	57	119	63	302	383
Reportable segment profit/(loss) before income tax	3,273	(2,156)	(19)	(142)	(132)	(163)	(51)	33	3,071	(2,428)
Capital expenditure	51	11	99	58	16	3	15	8	181	80

(ii) Reconciliations of reportable segment revenue and profit or loss

	30 June 2011 mln RUB	30 June 2010 mln RUB
Revenues		
Total revenue for reportable segments	31,503	24,311
Revenue of entities not included in reportable segments	59	25
Elimination of inter-segment revenue	(9,750)	(9,926)
Other	982	716
Consolidated revenue	**22,794**	**15,126**
Profit or loss		
Segment profit/(loss) before income tax	3,071	(2,428)
Impairment of property, plant and equipment, intangible assets, inventories	1,710	(613)
Timing differences relating to recognition of costs	(1,535)	(3,193)
Long-term lease agreements termination	-	857
Provision for doubtful accounts and reversal of provision accrued in previous period	779	(528)
Penalties and fines	76	(919)
Other (expenses)/income	(85)	139
Consolidated profit/(loss) from continuing operations before income tax	**4,016**	**(6,685)**

(iii) Geographical information

The Real Estate Development, Construction, Industrial and Other segments are managed on a Russian basis, but operate in three principal geographical areas: Moscow, Moscow Region and other regions.

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

	External revenues	
	30 June 2011 mln RUB	30 June 2010 mln RUB
Moscow	11,188	7,567
Moscow Region	8,822	5,862
Other regions	1,743	956
	21,753	**14,385**

8 Seasonality of operations

Higher revenues in the construction industry in Russia are usually experienced in the second half of each year when construction works are completed and formally accepted by state commissions.

9 Assets held for sale

	2011	2010		
Mln RUB	**ZAO Ochakovsky ZhBK**	**ZAO Ochakovsky ZhBK**	**Park-City Project**	**Total**
Property, plant and equipment	19	17	-	17
Investments in equity accounted investees	-	-	1,752	1,752
Inventories	3,299	1,747	1,217	2,964
Trade and other receivables	831	70	-	70
Cash and cash equivalents	618	-	-	-
Assets classified as held for sale	**4,767**	**1,834**	**2,969**	**4,803**
Current liabilities	3,496	1,582	1,249	2,831
Liabilities classified as held for sale	**3,496**	**1,582**	**1,249**	**2,831**

10 Revenue

Revenue from sales of apartments

	30 June 2011	**30 June 2010**
Completion		
- Buildings	22	9
- Saleable area, thousand square meters	256	129
- Underground garages	1	1
- Free standing garages	3	-
- Sellable parking spaces	1,371	109
Sale of premises		
- Premises sold in buildings completed in current period, thousand square meters	185	109
- Premises sold in buildings completed in prior periods, thousand square meters	75	43
	260	**152**
Parking spaces sold in buildings completed in current period	442	74

In 2010 and 2011 the Group initiated a series of transactions with the Group's suppliers aimed at settling the balances of trade payables with apartments. During the six-month period ended 30 June 2011 revenue from sale of apartments in exchange for goods and services received amounted to RUB 2,739 million (2010: RUB 1,755 million).

Sale of construction services

Construction services in the amount of RUB 2,149 million (2010: RUB 3,159 million) were provided to developers of buildings where the Group participates as a constructor.

11 Finance income

mln RUB	**30 June 2011**	**30 June 2010**
Reversal of bank penalties	1,312	-
Foreign exchange gains	894	-
Interest income	115	211
Reversal of impairment of financial assets	15	-
Other financial income	67	-
	2,403	**211**

12 Finance costs

mln RUB	**30 June 2011**	**30 June 2010**
Interest expense	1,963	2,103
Penalties for late repayment of loans	138	1,180
Change in non-controlling interest in limited liability companies	59	-
Foreign exchange losses	-	472
Losses on impairment of financial assets	-	528
	2,160	**4,283**

In addition to the borrowing costs recognized in profit or loss, borrowing costs of RUB 641 million (2010: RUB 86 million) were capitalized as part of inventory.

13 Income tax (expense)/benefit

Income tax expense is recognised based on Management’s best estimate of the weighted average annual income tax rate expected for the full financial year applied to pre tax income of the interim period.

mln RUB	**30 June 2011**	**30 June 2010**
Current tax benefit		
Current year	(674)	(292)
Adjustment to prior year taxable income recognized in current period	-	1,344
Tax provision recognized	(60)	(503)
	(734)	549
Deferred tax credit		
Origination and reversal of temporary differences	(96)	965
	(830)	**1,514**

14 Impairment losses and reversal of impairment on non-financial assets

During the six-month period ended 30 June 2011 the Group reversed impairment losses and recognized additional impairment losses in respect of the following non-financial assets primarily as a result of revisions to the time schedules of construction projects, plant utilisation capacity and changes in real estate market prices.

mln RUB	**30 June 2011**	**30 June 2010**
Impairment loss recognized in respect of:		
Property, plant and equipment	(117)	(242)
Development rights and equity accounted investees	(53)	(2,860)
Write-down of inventory	(188)	(738)
	(358)	(3,840)
Reversal of impairment loss and write-down of inventory:		
Property, plant and equipment	495	-
Development rights	1,278	1,664
Inventory	295	1,563
	2,068	3,227
Impairment losses and reversal of impairment loss, net	**1,710**	**(613)**

15 Other income and expenses

	2011 mln RUB	**2010 mln RUB**
Effect of termination long-term land lease agreements	-	857
Gain on disposal of subsidiaries	-	331
Penalties and fines, including reversals	584	(1,039)
Other income and expenses, net	(41)	(70)
	543	**79**

During the six-month period ended 30 June 2011 the Group reversed penalties and fines accrued in previous period on the amount of RUB 862 million in respect of wholesale contracts with local authorities.

16 Provisions

	2011 mln RUB	**2010 mln RUB**
Provision for costs to complete	19,134	19,622
Tax provision	1,878	1,738
	21,012	**21,360**

17 Loans and borrowings

	30 June 2011			
mln RUB	**Total**	**Overdue**	**Under 1 year**	**1 - 5 years**
Secured bank loans				
RUB - fixed at 11.6-14%	37,632	-	8,539	28,743
RUB - fixed at 12%-14%, repayable on demand	1,196	-	1,196	-
RUB – variable at Central Bank of Russia refinancing rate + 4%	-	-	350	-
USD - fixed at 10-11%	278	-	185	93
USD - fixed at 10%, repayable on demand	3,740	-	3,740	-
Unsecured bank loans				
USD - fixed at 15% - 16%	82	-	82	-
Unsecured loans from third parties				
RUB - fixed at 0%	66	57	9	
RUB - fixed at 0.1% - 10%	143	17	102	24
RUB - fixed at 10.1% - 18%	404	1	326	77
USD - fixed at 3% - 12%	58	-	58	-
Unsecured loans from related parties				
RUB - fixed at 12%	323	-	323	-
Interest payable	1,110	-	1,110	-
	45,032	**75**	**16,020**	**28,937**

31 December 2010				
mln RUB	**Total**	**Overdue**	**Under 1 year**	**1 - 5 years**
Secured bank loans				
RUB - fixed at 11.6-14%	4,955	-	1,900	3,055
RUB - fixed at 12-16%, payable on demand	22,903	-	22,903	-
USD - fixed at 10-15%	6,725	6,086	377	262
USD - fixed at 10.3 payable on demand	4,417	-	4,417	-
Unsecured loans from third parties				
RUB - fixed at 0%	56	56	-	-
RUB - fixed at 0.1% - 10%	98	38	41	19
RUB - fixed at 10.1% - 16%	2,021	10	431	1,580
USD - fixed at 3-12%	66	8	58	-
Unsecured loans from related parties				
RUB - fixed at 12%	323	-	323	-
Interest payable	1,132	-	1,132	-
Penalties payable	1,282	-	1,282	-
	43,978	**6,198**	**32,864**	**4,916**

At 30 June 2011 the following assets secured bank loans:

- property, plant and equipment with a carrying value of RUB 3,630 million (2010: RUB 3,617 million);
- development rights with a carrying value of RUB 1,652 million (2010: RUB 972 million);
- residential and commercial property under construction with a total saleable area of 83 thousand square meters and with a carrying value of RUB 4,343 million in Moscow and the Moscow Region (31 December 2010: 215 thousand square meters and with a carrying value of RUB 10,967 million);

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

	2011			2010
	Number of shares	**% of share capital**	**Number of shares**	**% of share capital**
OAO DSK-2	51,950,334	98	51,950,334	98
OAO DSK-3	1,747,081	81	1,747,081	81
OAO 480 KGI	1,556,430	100	1,556,430	100
OAO KHZ	1,454,600	92	1,454,600	92
OAO 160 DSK	1,219,628	75	1,219,628	75
OAO Zavod Gazstroymash	387,421	87	-	-
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	334,000	100	334,000	100
ZAO TP Red East	37,317	93	37,317	93
OAO KSRZ	48,170	100	-	-
OAO 100 KGI	10,016	77	10,016	77
ZAO Stroybusinesscenter	10,000	100	10,000	100
ZAO Podmoskovye 160 DSK	5,811	63	5,811	63
ZAO Monetchik	100	100	100	100
ZAO PIK Zapad	-	-	110	100
OOO NSS	-	100	-	100
OOO StroyInvest	-	100	-	100
OOO Semigor	-	-	-	100
OOO Status Land	-	100	-	100
OAO Waystone	-	100	-	-
OOO Kholdingovaya Kompanya Upravlenie Experimentalnoy Zastroyki Novokurkino	-	-	-	100

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, and cross-default provisions. Covenant breaches generally permit lenders to demand accelerated repayment of the principal and interest. As at 30 June 2011 the Group breached the following financial covenants in various loan agreements with the carrying value of RUB 4,936 million (2010: RUB 27,320 million): debt to EBITDA ratio, amounts payable under lawsuits against the Group. Management does not believe that early repayment of the loans will be requested. Amendments to the loans covenants are currently being considered by the lenders, and Management expects them to be approved in the near future.

In June 2011 the Group obtained a letter from its major creditor which confirmed that the bank does not intend to demand early repayment of loans totalling RUB 26,037 million as a consequence of the breach of covenants. These loans have been classified as non-current loans as at 30 June 2011.

18 Commitments

The Group entered into a number of co-investment contracts, where payments have not been made in full, and contracts to provide construction services. However, significant funds have been collected from individuals through pre-sale agreements to finance the projects. Therefore, the Group has contractual obligations to complete the buildings within its normal operating cycle. As at 30 June 2011 commitments under these contracts amounted to approximately RUB 51,675 million (31 December 2010: RUB 60,118 million). These commitments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

19 Contingencies

Except as described below, the contingencies of the Group related to insurance, warranties and taxation did not change significantly from the contingencies reported in the consolidated financial statements as at and for the year ended 31 December 2010.

Litigation

The Group is defending itself in respect of various claims and legal proceedings related to supply and service contracts. The aggregate of these claims is RUB 2,765 million as at 30 June 2011 (31 December 2010: RUB 2,050 million). These amounts have been fully provided for as at 30 June 2011. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operations.

In addition, in 2008 the Group entered into an agreement to obtain the right to lease a land plot in Nizhny Novgorod from local authorities. In 2010 the lease agreement was terminated. The party to the lease agreement has challenged the Group's actions with respect to the termination of the contract. Should the Group fail to defend its position successfully in court, it would be required to pay RUB 1,200 million as the remaining payment under the agreement to the authorities. Management of the Group believes that it is possible, but not probable, that an outflow of economic resources would be required as a consequence of this claim since the position of the claimant lacks legal grounds.

Taxation contingencies

In 2010 one of the Group's subsidiaries deducted interest expense related to loans provided by the Company based on Management's interpretation of the Tax Code. Should the tax authorities successfully challenge the Group's tax position as not being in full conformity with applicable tax legislation, additional tax charges of RUB 1,547 million may be levied to the Group. Management has not provided any amounts in respect of such obligations in these consolidated interim condensed financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

As at 30 June 2011, other contingent liabilities related to taxation amounted to approximately RUB 784 million.

20 Related party transactions

(a) Control relationships

As at 30 June 2010 and 2011 the Group did not have either an immediate or ultimate parent company.

As at 30 June 2011 the Nafta Moskva Group and its ultimate beneficial owner Mr. Suleiman Kerimov controlled approximately 38.3% of the Company's ordinary shares. The Nafta Moskva Group is the beneficial owner of Lacero Trading Ltd and Holborner Services Limited.

In addition, five out of nine members of the Board of Directors, including its Chairman, are officers and directors of the Nafta Moskva Group or its affiliates.

(b) Transactions with management and close family members

(i) Management remuneration

Key management received remuneration of RUB 71 million during the six-month period ended 30 June 2011 (2010: RUB 49 million) including contributions to the state pension fund.

(ii) Other transactions

As at 30 June 2011 trade payables include advances received from executive directors under agreements to acquire property under construction in the amount of RUB 29 million.

(c) Transactions with other related parties

During 2010 the Group's other related party transactions were with the entities controlled by the founding shareholders. On 21 June 2011 the founding shareholders ceased to have representatives on the Company's Board of Directors. As a result, transactions and balances with such entities are no longer disclosed as related party transactions.

mln RUB	**30 June 2011**	**30 June 2010**
Purchases from related parties		
Payments under property insurance contacts to an insurance company controlled by founding shareholders	29	23
	29	**23**

mln RUB	**30 June 2011**	**31 December 2010**
Balances with related parties		
Loan receivable from a party related to a founding shareholder	-	580
Loan receivable from a founding shareholder	-	15
Accounts receivable under co-investment agreements with a related party controlled by founding shareholders	-	381
	-	**976**
Loans payable and promissory notes due to companies related to shareholders	323	323
Accounts payable under co-investment agreements with a related party controlled by founding shareholders	-	94
	-	**417**

21 Events subsequent to the reporting date

Receipt of waivers from creditors

In September 2011, the Group received a waiver from one of its creditors, Rosbank. Given that the date of this waiver is subsequent to the reporting period, the loan was classified as a current liability as at 30 June 2011.

Receipt of funds from sale of development rights

In August 2011 the Group completed a transaction to sell ZAO Ochakovskiy ZhBK, which was accounted for as asset held for sale as at 30 June 2011. The Group expects that the gain on disposal will approximate RUB 1,000 million and will be included in the Group's consolidated financial statements as at and for the year ending 31 December 2011.

Refinancing of a major loan

In September 2011, the Group attracted a new long-term loan amounting to RUB 1,200 million. The loan matures in 2013-2015. With the proceeds the Group fully repaid an outstanding loan, classified as a current liability as at 30 June 2011 in the amount of RUR 1,196 million.

Introduction of a new staff motivation plan

On 8 September 2011 the Board of Directors of the Group approved a new staff motivation plan, which includes provisions for base salary, annual bonus payment and long-term share based remuneration plan ('option plan'). Under the above option plan, ten key members of Group's management will receive an equivalent of up to eight times of their respective annual salaries as a remuneration in 2014-2015, 50% of which will be settled in shares and the remainder – in cash. The amount of remuneration will depend on the performance of the Group and individual performance of the directors.

Insolvency claim

On 5 September 2011, a bankruptcy claim was filed against the Company due to its failure to timely pay legal fees in the amount of RUB 0.2 million awarded by an arbitrazh court in connection with earlier court proceedings. We believe that the bankruptcy claim is without merit because the amount alleged to be payable by the Group has been paid in full to the claimant subsequent to the date of claim. As a result, the claimant has subsequently filed a notion with the court requesting a termination of the proceedings. The court has scheduled a hearing to review the notion on 27 September 2011.

The bankruptcy claim constituted, or could be viewed as, an event of default under some of the Group's credit facilities. As a result RUB 24,354 million of loans classified as non-current liabilities as at 30 June 2011 may be requested for accelerated repayment, and, accordingly, reclassified as current, payable on demand. In addition, RUB 7,039 million classified as current may be reclassified to current, payable on demand. Management believes that it is unlikely that such accelerated repayments will be requested by the banks as a result of the above claim.

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

The Board of Directors
OAO Group of Companies PIK

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Group of Companies PIK and its subsidiaries (the "Group") as at 30 June 2011, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2011 and for the six-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
20 September 2011