# OAO Group of Companies PIK
# Condensed Consolidated Interim Financial Statements
# for the six-month period ended 30 June 2010

# Contents

# Condensed Consolidated Interim Statement of Financial Position as at 30 June 2010

| mln RUR | Note | 30 June 2010 | 31 December 2009 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 9,738 | 10,390 |
| Intangible assets | | 21,845 | 22,072 |
| Investments in equity accounted investees | | 2,370 | 3,460 |
| Other investments | | 1,100 | 997 |
| Deferred tax assets | | 9 | 86 |
| **Total non-current assets** | | 35,062 | 37,005 |
| **Current assets** | | | |
| Inventories | | 66,904 | 63,677 |
| Other investments | | 326 | 872 |
| Income tax receivable | | 103 | 87 |
| Trade and other receivables | | 12,770 | 10,598 |
| Cash and cash equivalents | | 1,967 | 3,417 |
| Assets classified as held for sale | | 310 | - |
| **Total current assets** | | 82,380 | 78,651 |
| **Total assets** | | 117,442 | 115,656 |
| **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 | | (22,425) | (17,294) |
| **Total equity attributable to equity holders of the Company** | | (6) | 5,125 |
| Non-controlling interests | | 273 | 555 |
| **Total equity** | | 267 | 5,680 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 14 | 7,166 | 6,277 |
| Trade and other payables | | 312 | 1,128 |
| Deferred tax liabilities | | 4,128 | 5,170 |
| **Total non-current liabilities** | | 11,606 | 12,575 |
| **Current liabilities** | | | |
| Loans and borrowings | 14 | 35,030 | 32,013 |
| Trade and other payables | | 69,243 | 63,528 |
| Provisions | | 1,140 | 608 |
| Income tax payable | | 156 | 1,252 |
| **Total current liabilities** | | 105,569 | 97,401 |
| **Total liabilities** | | 117,175 | 109,976 |
| **Total equity and liabilities** | | 117,442 | 115,656 |

These condensed consolidated interim financial statements were approved by Management on 4 October 2010 by:

Pavel A. Poselenov
*President*

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

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 20.

# Condensed Consolidated Interim Statement of Comprehensive Income for the six-month period ended 30 June 2010

| mln RUR | Note | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|---|
| **Revenue** | 9 | 15,126 | 11,983 |
| Cost of sales | | (15,170) | (9,541) |
| **Gross profit** | | **(44)** | **2,442** |
| Distribution expenses | | (222) | (305) |
| Administrative expenses | | (1,780) | (2,201) |
| Impairment losses and reversal of impairment loss, net | 12 | (613) | 285 |
| Other income and expenses | 13 | 79 | (365) |
| Finance income | | 211 | 243 |
| Finance costs | 10 | (4,283) | (6,502) |
| Share of loss of equity accounted investees, net of income tax | | (33) | (61) |
| **Loss before income tax** | | **(6,685)** | **(6,464)** |
| Income tax benefit | 11 | 1,514 | 317 |
| **Loss and total comprehensive income for the period** | | **(5,171)** | **(6,147)** |
| *Attributable to:* | | | |
| Loss attributable to shareholders of the Company | | (5,131) | (6,031) |
| Loss attributable to minority interest | | (40) | (116) |
| **Total comprehensive loss for the period** | | **(5,171)** | **(6,147)** |
| Basic and diluted loss per share | | (10.40) RUR | (12.7) RUR |

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 20.

# Condensed Consolidated Interim Statement of Changes in Equity for the six-month period ended 30 June 2010

| | Attributable to equity holders of the Company | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **mln RUR** | **Share capital** | **Additional paid-in-capital** | **Reserve resulting from additional share issue** | **Reserve for own shares** | **Retained earnings** | **Subtotal** | | |
| **At 1 January 2009 (Restated)** | **30,843** | **20,082** | **(28,506)** | **(2,428)** | **(3,765)** | **16,226** | **978** | **17,204** |
| Loss and total comprehensive loss for the period | - | - | - | - | (6,031) | (6,031) | (102) | (6,133) |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | | |
| Loss on change in terms of the loan receivable from owners of the Company | - | - | - | - | (301) | (301) | - | (301) |
| *Changes in ownership interests in subsidiaries that do not result in a loss of control* | | | | | | | | |
| Acquisition of non-controlling interest in subsidiaries | - | - | - | - | - | - | (61) | (61) |
| Total transactions with owners | - | - | - | - | (301) | (301) | (61) | (362) |
| **At 30 June 2009 (Restated)** | **30,843** | **20,082** | **(28,506)** | **(2,428)** | **(10,097)** | **9,894** | **815** | **10,709** |
| **At 1 January 2010 (Restated)** | **30,843** | **20,082** | **(28,506)** | **-** | **(17,294)** | **5,125** | **555** | **5,680** |
| Loss and total comprehensive loss for the period | - | - | - | - | (5,131) | (5,131) | (40) | **(5,171)** |
| Change in non-controlling interest related to disposed subsidiary (note13) | - | - | - | - | - | - | (248) | **(248)** |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| *Changes in ownership interests in subsidiaries that do not result in a loss of control* | | | | | | | | |
| Dilution of non-controlling interest in a subsidiary | - | - | - | - | - | - | 6 | 6 |
| Total transactions with owners | - | - | - | - | - | - | (242) | (242) |
| **At 30 June 2010** | **30,843** | **20,082** | **(28,506)** | **-** | **(22,425)** | **(6)** | **273** | **267** |



The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 20.

# Condensed Consolidated Interim Statement of Cash Flows for the six-month period ended 30 June 2010

| mln RUR | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Loss for the period** | **(5,171)** | **(6,147)** |
| *Adjustments for:* | | |
| Depreciation and amortisation | 383 | 517 |
| Foreign exchange loss, net | 472 | 1,301 |
| Loss on disposal of property, plant and equipment | (6) | (16) |
| Impairment loss/(reversal of impairment loss) on non-current assets and inventory write downs | 613 | (285) |
| Share of loss of equity accounted investees | 33 | 61 |
| Impairment of financial assets | - | 323 |
| Income from disposal of a subsidiary | (331) | - |
| Interest expense, including penalties payable | 3,283 | 4,378 |
| Interest income | (211) | (243) |
| Income tax benefit | (1,514) | (317) |
| **Operating loss before changes in working capital and provisions** | **(2,449)** | **(428)** |
| (Increase)/ decrease in inventories | (2,560) | 2,293 |
| (Increase)/ decrease in trade and other receivables | (2,116) | 376 |
| Increase/ (decrease) in trade and other payables | 5,052 | (2,287) |
| Increase in provisions | - | 106 |
| **Cash flows from/(utilised in) operations before income taxes and interest paid** | **(2,073)** | **60** |
| Income taxes paid | (32) | (40) |
| Interest paid | (1,852) | (1,447) |
| **Cash flows utilised by operating activities** | **(3,957)** | **(1,427)** |
| **INVESTING ACTIVITIES** | | |
| Proceeds from disposal of property, plant and equipment | 135 | 19 |
| Interest received | 14 | 231 |
| Acquisition of property, plant and equipment | (81) | (176) |
| Acquisition of development rights and other intangible assets | - | (249) |
| Acquisition of equity accounted investees | - | (2,208) |
| Acquisition of non-controlling interests | - | (61) |
| Loans advanced | (28) | (168) |
| Repayment of loans advanced | 11 | - |
| Repayment of loans advanced to individuals | 108 | 338 |
| **Cash flows from/(utilised by) investing activities** | **159** | **(2,274)** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | 7,076 | 4,528 |
| Repayment of borrowings | (4,728) | (3,225) |
| Transactions with shareholders | - | (385) |
| **Cash flows from financing activities** | **2,348** | **918** |
| Net decrease in cash and cash equivalents | (1,450) | (2,783) |
| Cash and cash equivalents at beginning of period, net of overdrafts | 3,417 | 3,153 |
| **Cash and cash equivalents at end of period, net of overdrafts** | **1,967** | **370** |



The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 20.

# Notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2010

## 1 Reporting entity

OAO Group of Companies PIK (the “Company”) is a company domiciled in the Russian Federation. The condensed consolidated interim financial statements of the Company as at and for the six-month period ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates.

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 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 condensed consolidated interim financial statements have been prepared in accordance with 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 2009.

## 3 Functional and presentation currency

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

## 4 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009. The accounting policies have been consistently applied by the Group entities.

## 5 Restatement

### *Presentation of long-term loans and borrowings*

As at 31 December 2009 the Group was in breach of a debt to EBIDTA covenant related to a bank loan. This loan was classified as long-term loans and borrowings at 31 December 2009 since it matures after 31 December 2010 and there were certain arrangements with the respective bank in place that meant early repayment of the loan on the grounds of this breach was not expected. IAS 1 *Presentation of Financial Statements* requires classifying a liability as current if a lender did not formally agree by the end of a reporting period to provide a period of grace ending at least twelve month after the reporting period, during which the lender cannot demand immediate repayment due to the breach. The Group has modified the presentation of these balances in the comparative information as at 31 December 2009. This modification has resulted in an increase of short-term loans and borrowings and in the respective decrease in long-term loans and borrowings by RUR 15,844 million as at 31 December 2009.

### *Revision of construction costs for certain completed projects*

During the six-month period ended 30 June 2010, the Group has completed legal procedures on state registration of titles (transfer of title from the Group to customers) for certain residential properties. The revenue from sale of these properties was recognised in the consolidated financial statements for the years 2006-2008. On completion of these procedures the Group has performed a reconciliation of the total actual costs incurred, including those related to social infrastructure, to the estimate of the costs recognised in the

IFRS financial statements for 2006-2008. As a result, the Group identified that certain costs and related tax effect have not been included in the estimateв costs included in costs of sales for 2006-2008. The Group has corrected these errors by adjusting the respective balances as at 1 January 2009 and 31 December 2009. In addition, the Group has identified certain classification errors which have also been adjusted in these financial statements and resulted in an offset of the balances of inventories and accounts payable as at 31 December 2009.

These restatements had the following effect on previously issued financial statements:

**As at and for the year ended 31 December 2006:**

| | As reported | Adjustment | As restated |
|---|---|---|---|
| Inventories | 38,694 | (1,469) | 37,225 |
| Total current assets | 49,825 | (1,469) | 48,356 |
| Total assets | 65,654 | (1,469) | 64,185 |
| Trade and other payables | 26,176 | (689) | 25,487 |
| Total current liabilities | 41,203 | (689) | 40,514 |
| Deferred tax liabilities | 4,461 | (187) | 4,274 |
| Total non-current liabilities | 14,520 | (187) | 14,333 |
| Retained earnings | 9,481 | (593) | 8,888 |
| Total equity | 9,931 | (593) | 9,338 |
| | | | |
| Revenue | 42,046 | 466 | 42,512 |
| Cost of sales | (32,265) | (844) | (33,109) |
| Gross profit | 9,781 | (378) | 9,403 |
| Profit before income tax | 11,405 | (378) | 11,027 |
| Income tax expense | (3,305) | 91 | (3,214) |
| Net profit for the year | 8,100 | (287) | 7,813 |

**As at and for the year ended 31 December 2007:**

| | As reported | Adjustment | As restated |
|---|---|---|---|
| Inventories | 49,801 | (3,455) | 46,346 |
| Total current assets | 88,556 | (3,455) | 85,101 |
| Total assets | 126,282 | (3,455) | 122,827 |
| Trade and other payables | 30,671 | (861) | 29,810 |
| Total current liabilities | 55,845 | (861) | 54,984 |
| Deferred tax liabilities | 8,006 | (623) | 7,383 |
| Total non-current liabilities | 20,098 | (623) | 19,475 |
| Retained earnings | 27,335 | (1,972) | 25,363 |
| Total equity | 50,339 | (1,972) | 48,367 |
| | | | |
| Revenue | 59,149 | 172 | 59,321 |
| Cost of sales | (41,305) | (1,986) | (43,291) |
| Gross profit | 17,844 | (1,814) | 16,030 |
| Profit before income tax | 21,480 | (1,814) | 19,666 |
| Income tax expense | (3,595) | 435 | (3,160) |
| Net profit for the year | 17,885 | (1,379) | 16,506 |

**As at and for the year ended 31 December 2008:**

| | As reported | Adjustment | As restated |
|---|---|---|---|
| Inventories | 77,184 | (3,668) | 73,516 |
| Total current assets | 99,203 | (3,668) | 95,535 |
| Total assets | 143,260 | (3,668) | 139,592 |
| Trade and other payables | 74,439 | (226) | 74,213 |
| Total current liabilities | 107,201 | (226) | 106,975 |
| Deferred tax liability | 6,135 | (688) | 5,447 |
| Total non-current liabilities | 16,101 | (688) | 15,413 |
| Retained earnings | (1,011) | (2,754) | (3,765) |
| Total equity | 19,958 | (2,754) | 17,204 |
| | | | |
| Cost of sales | (25,169) | (848) | (26,017) |
| Gross profit | 8,526 | (848) | 7,678 |
| Profit before income tax | (29,543) | (848) | (30,391) |
| Income tax expense | 1,277 | 66 | (1,343) |
| Net profit for the year | (28,181) | (782) | (28,963) |

**As at and for the year ended 31 December 2009:**

| | As reported | Adjustment | As restated |
|---|---|---|---|
| Inventories | 67,345 | (3,668) | 63,677 |
| Total current assets | 82,319 | (3,668) | 78,651 |
| Total assets | 119,324 | (3,668) | 115,656 |
| Loans and borrowings, current | 16,169 | 15,844 | 32,013 |
| Trade and other payables | 63,753 | (226) | 63,528 |
| Total current liabilities | 81,783 | 15,618 | 97,401 |
| Loans and borrowings, non-current | 22,121 | (15,844) | 6,277 |
| Deferred tax liabilities | 5,858 | (688) | 5,170 |
| Total non-current liabilities | 29,107 | (16,532) | 12,575 |
| Retained earnings | (14,540) | (2,754) | 17,294 |
| Total equity | 8,434 | (2,754) | 5,680 |

The Company intends to reissue its annual financial statements for the years 31 December 2008 and 31 December 2009 in December 2010 to reflect the above adjustments.

# 6 Estimates

The preparation of interim 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. Except as described below, in preparing these condensed consolidated interim 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 2009.

***Revision of master construction plans and construction budgets***

During the six-month period ended 30 June 2010 the Group revised certain master construction plans and related construction budgets for social infrastructure and utilities for four big housing projects located in the Moscow region.

The revision of the master plans resulted in reduction of net sellable area and the respective increase in cost of infrastructure per square meter. As a result additional costs of RUR 505 million were recognized during the six-month period ended 30 June 2010 as related to apartments sold prior to 31 December 2009.

In addition, change in design of social infrastructure and utilities as per new requirements imposed by the local authorities resulted in an increase of cost of sales by RUR 3,387 million.

The total effect of the above changes of RUR 3,892 million was recognized in cost of sales during the six-month period ended 30 June 2010.

There was no revision of master budgets with the effect of cost of sales during six-month period ended 30 June 2009.

***Reassessed estimates of development rights***

During the six-month period ended 30 June 2010 Management reassessed its estimates with respect to non-financial assets and inventories (note 12).

# 7 Segmental information

During the six-month period ended 30 June 2010 the Group changed the structure of its Internal organisation in a manner that caused the composition of its reportable segments to change. The corresponding information for earlier periods was restated accordingly.

Up to 31 December 2009 the Group analysed its operations on the basis of three reportable segments: Real estate development, Construction and Maintenance. Effective from 1 January 2010 the Group distinguishes four reportable segments which are the Group's strategic business units:

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

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

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

### *(i) Segments profit and losses*

| mln RUR | Real estate development Six months ended 30 June | | Construction segment Six months ended 30 June | | Industrial segment Six months ended 30 June | | Other Six months ended 30 June | | Total Six months ended 30 June | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| | | | | (restated) | | (restated) | | (restated) | | |
| External revenues | 9,700 | 9,416 | 2,800 | 2,086 | 605 | 1,072 | 1,280 | 1,001 | 14,385 | 13,575 |
| Inter-segment revenue | - | - | 7,942 | 3,260 | 1,179 | 526 | 805 | 1,761 | 9,926 | 5,547 |
| Total revenue for reportable segments | 9,700 | 9,416 | 10,742 | 5,346 | 1,784 | 1,598 | 2,085 | 2,762 | 24,311 | 19,122 |
| Interest income | 253 | 654 | 1 | - | 1 | 3 | 1 | 52 | 256 | 709 |
| Interest expense | (2,364) | (1,727) | (27) | (52) | - | (11) | (47) | (76) | (2,438) | (1,866) |
| Depreciation and amortisation | 246 | 40 | 87 | 84 | 57 | 91 | 63 | 73 | 453 | 288 |
| Reportable segment (loss)/profit before income tax | (2,156) | (895) | (142) | (201) | (163) | (288) | 33 | (400) | (2,428) | (1,784) |
| Capital expenditure | 11 | 1 | 58 | 14 | 3 | 14 | 8 | 10 | 80 | 39 |

***(ii) Reconciliations of reportable segment revenues and profit or loss***

| | 30 June 2010 mln RUR | 30 June 2009 mln RUR |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 24,311 | 19,122 |
| Revenue of entities not included in reportable segments | 25 | 110 |
| Elimination of inter-segment revenue | (9,926) | (5,547) |
| Other | 716 | (1,702) |
| Consolidated revenue | **15,126** | **11,983** |
| **Profit or loss** | | |
| Segment profit before tax | (2,428) | (1,784) |
| Impairment of property, plant and equipment, intangible assets, inventories | (613) | 285 |
| Timing differences relating to recognition of costs | (3,193) | (2,638) |
| Long-term lease agreements termination | 857 | - |
| Provision for doubtful accounts | (528) | (500) |
| Penalties and fines | (919) | (1,612) |
| Other expenses | 139 | (215) |
| Consolidated loss from continuing operations before income tax | **(6,685)** | **(6,464)** |

***(iii) Geographical information***

The Real estate development, Construction, Industrial and Other segments are managed on the Russia basis, but operate in three principal geographical areas: Moscow, the Moscow region and the Other regions.

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

| | Revenues | |
|---|---|---|
| | 30 June 2010 mln RUR | 30 June 2009 mln RUR |
| Moscow | 7,567 | 8,310 |
| The Moscow region | 5,862 | 3,754 |
| Other regions | 956 | 1,511 |
| | 14,385 | 13,575 |

# 8 Seasonality of operations

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

# 9 Revenue

*Sales of apartments*

During the six-month period ended 30 June 2010 the Group completed 9 buildings with a saleable area of 129 thousand square meters (2009: 6 buildings with a saleable area of 68 thousand square meters). Of the buildings completed during the six-month period ended 30 June 2010, the Group sold 109 thousand square meters (2009: 54 thousand). In addition, approximately 43 thousand square meters were sold during the six-month period ended 30 June 2010 in buildings completed in earlier periods (2009: 56 thousand).

In 2009 and 2010 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 2010 revenues from sale of apartments in exchange for goods and services received amounted to RUR 1,755 million (2009: RUR 2,479 million).

*Sale of construction services*

Construction services in the amount of RUR 3,159 million (2009: RUR 3,594 million) were provided to developers of buildings where the Group participates as a constructor.

## 10 Finance costs

| mln RUR | 30 June 2010 | 30 June 2009 |
|---|---|---|
| Interest expense | (2,103) | (2,692) |
| Penalties for late repayment of loans | (1,180) | (1,686) |
| Foreign exchange losses | (472) | (1,301) |
| Losses on impairment of financial assets | (528) | (823) |
| | **(4,283)** | **(6,502)** |

In addition to the borrowing costs recognized in profit or loss, borrowing costs of RUR 72 million (2009: RUR 233 million) were capitalized as part of construction work in progress intended for sale.

## 11 Income tax benefit

The income tax benefit consists of the following:

| mln RUR | 30 June 2010 | 30 June 2009 |
|---|---|---|
| ***Current tax benefit*** | | |
| Current year expense | (292) | (111) |
| Adjustment to prior year taxable income recognized in current period | 1,344 | - |
| Tax provision recognized | (503) | - |
| | 549 | (111) |
| ***Deferred tax credit*** | | |
| Origination and reversal of temporary differences | 965 | 428 |
| | **1,514** | **317** |

During the six-month period ended 30 June 2010 the Group decided to apply for a decrease in prior year's taxable income with respect to expenses previously considered non-deductible. For risks associated with the adjustment to prior year taxable income recognized in current period refer to note 16.

# 12 Impairment losses and reversal of impairment on non-financial assets

During the six-month period ended 30 June 2010 the Group recognized additional impairment loss and reversed impairment in respect of the following non-financial assets primarily as a result of revisions to the time schedules of construction projects and changes in real estate market prices. These changes had the following impact on the financial statements:

| mln RUR | 30 June 2010 | 30 June 2009 |
|---|---|---|
| ***Impairment loss recognized in respect of:*** | | |
| Property, plant and equipment | (242) | (384) |
| Development rights | (1,802) | - |
| Equity accounted investees | (1,058) | - |
| Write-down of inventory | (738) | (176) |
| | (3,840) | (560) |
| ***Reversal of impairment loss and write-down of inventory:*** | | |
| Development rights | 1,664 | 845 |
| Inventory | 1,563 | - |
| | 3,227 | 845 |
| **Impairment losses and reversal of impairment loss, net** | **(613)** | **285** |

Some of the impairment losses were recognized on the basis of recoverable amounts as determined by an independent appraiser.

# 13 Other income and expenses

On 12 April 2010 the Group sold Sturm Properties limited and its subsidiaries operating in the commercial real estate development segment for a negligible consideration. Since the subsidiary had negative net assets at the date of disposal, the transaction resulted in a net gain of RUR 331 million included in other income and expenses.

During the six-month period ended 30 June 2010 the Group terminated an agreement with Nizhny Novgorod authorities for a long-term lease of a land plot and derecognized accounts payable in amount of RUR 857 million in respect of this agreement.

During the six-month period ended 30 June 2010 the Group accrued penalties of RUR 863 million in respect of whole-sale contracts with local authorities related to sales of residential properties in the Moscow region.

# 14 Loans and borrowings

| | 30 June 2010 | | | |
|---|---|---|---|---|
| **mln RUR** | **Total** | **Overdue** | **Under 1 year** | **1 - 5 years** |
| **Secured bank loans** | | | | |
| RUR - fixed at 11.6% | 3,056 | - | - | 3,056 |
| RUR - fixed at 12%-17%, payable on demand | 19,987 | - | 19,987 | - |
| RUR - fixed at 18% | 94 | - | 94 | - |
| USD - fixed at 10%-12% | 11,870 | 8,563 | - | 3,307 |
| USD - fixed at above 14.5% | 1,505 | 702 | - | 803 |
| **Unsecured bank loans** | | | | |
| RUR - fixed at 14% | 1,900 | - | 1,900 | - |
| USD - fixed at 10.8% - 15% | 780 | 780 | - | - |
| **Unsecured loans from third parties** | | | | |
| RUR - fixed at 0% | 70 | 70 | - | - |
| RUR - fixed at 0.1% - 10% | 481 | 481 | - | - |
| RUR - fixed at 10.1% - 18% | 30 | 30 | - | - |
| USD - fixed at 3% - 12% | 64 | 7 | 57 | - |
| **Finance lease liabilities** | 2 | - | 2 | - |
| **Interest payable** | 1,073 | - | 1,073 | - |
| **Penalties payable** | 1,284 | - | 1,284 | - |
| | **42,196** | **10,633** | **24,397** | **7,166** |

| | 31 December 2009 | | | |
|---|---|---|---|---|
| **mln RUR** | **Total** | **Overdue** | **Under 1 year** | **1 - 5 years** |
| *Secured bank loans* | | | | |
| RUR - fixed at above 10% | 4,454 | 1,304 | - | 3,150 |
| RUR - fixed at 12%, payable on demand | 15,844 | - | 15,844 | - |
| USD - fixed at 6% and above | 10,741 | 9,587 | - | 1,154 |
| **Unsecured bank loans** | | | | |
| RUR - fixed at 14% | 1,900 | - | - | 1,900 |
| USD - fixed at 10.8% - 18% | 3,024 | 3,024 | - | - |
| **Unsecured loans from third parties** | | | | |
| RUR - fixed at 0% | 51 | - | 51 | - |
| RUR - fixed at 0.1% - 10% | 744 | - | 671 | 73 |
| RUR - fixed at 10.1% - 18.5% | 275 | - | 275 | - |
| Interest payable | 561 | - | 561 | - |
| Penalties payable | 694 | - | 694 | - |
| Finance lease liabilities (RUR) | 2 | - | 2 | - |
| | **38,290** | **13,915** | **18,098** | **6,277** |

At 30 June 2010 the following assets secured bank loans:

- property, plant and equipment with a carrying value of RUR 4,319 million (2009: RUR 1,253 million);
- inventory with a carrying value of RUR 5 million (2009: RUR 1,842 million);
- development rights with a carrying value of RUR 659 million (2009: RUR 897 million);
- investment rights for residential and commercial real estate with a total saleable area of 312 thousand square meters in Moscow and Moscow Region and 17 thousand square meters in other regions (31 December 2009: 1,393 thousand square meters and 17 thousand square meters, respectively);

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

| | 30 June 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| **mln RUR** | **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 | 813,087 | 50 | 813,087 | 50 |
| ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region) | 170,000 | 100 | 170,000 | 100 |
| ZAO TP Red East | 40,126 | 100 | 40,126 | 100 |
| OAO 100 KGI | 10,016 | 77 | 10,016 | 77 |
| ZAO Stroybusinesscenter | 10,000 | 100 | 10,000 | 100 |
| ZAO Podmoskovie 160 DSK | 5,811 | 63 | 5,811 | 63 |
| ZAO Monetchik | 100 | 100 | 100 | 100 |
| ZAO PIK Zapad | 110 | 100 | 110 | 100 |
| OOO NSS | - | 100 | - | 100 |
| OOO Stroyinvest | - | 100 | - | 100 |
| OOO Semigor | - | 100 | - | 100 |
| OOO Status Land | - | 100 | - | 100 |
| OOO Kholdingovaya Kompaniya Upravlenie Experimentalnoy Zastroyki Novokurkino | - | 100 | - | 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 2010 the Group breached the following financial covenants in various loan agreements in amount of RUR 19,987 million: debt to EBITDA, positive net assets as per statutory financial statements.

On 6 July 2010 the Company received a letter from a major creditor which confirms that the bank, whilst it has not waived its right to do so, does not intend to early demand for the repayment of loans of RUR 18,468 million as a consequence of the breach and considered revising the covenant in November 2010. These loans are classified as current, payable on demand, as at 30 June 2010.

Since the balance of the loan with the contracted maturity of more than 12 months from the period end was classified as current, payable on demand, due to the breach of covenants as described above, the Group's current liabilities exceeded the current assets by RUR 21,987 billion. Management does not believe that early repayment will be requested as a consequence of the breach of the loan covenant since the Group's financial position and result for 2009 was evident to the lender at the time the loan was provided to the Group, amendments to the loan covenants are currently being considered by the lender, and management expects these to be approved in the near future. Further, a substantial part of the loan is secured by pledged development properties with the remainder covered by a government guarantee.

# 15 Commitments

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

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 2010 commitments under these contracts totalled approximately RUR 116,608 million (31 December 2009: RUR 124,720 million). These commitments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

### (b) Commitments to acquire property, plant and equipment

At 30 June 2010 and 31 December 2009 the Group had no contractual commitments to acquire property, plant and equipment.

## 16 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 2009.

*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 RUR 3,754 million claimed for repayment as at 30 June 2010 (31 December 2009: RUR 1,507 million). These amounts have been fully provided for as at 30 June 2010. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operations, since the amounts are included in the balance of accounts payable at the period ends.

*Taxation contingencies*

In 2009 and 2010 one of the Group's subsidiaries deducted interest expense related to loans provided by the Parent 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 RUR 1,683 million may be levied to the Group. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

## 17 Related party transactions

### (a) Control relationships

During the six-month period ended 30 June 2009 Kirill V. Pisarev and Yury V. Zhukov the Founding Shareholders, ceased to control the Group.

As at 30 June 2010 the main shareholders of the Group are:

| | 30 June 2009 | 31 December 2009 |
|---|---|---|
| Lacero Trading Limited | 18,3% | 25% |
| Maritrade Investments Limited (Y.Zhukov) | 12,5% | 14,36% |
| Forienst Investments Limited (K.Pisarev) | 10,5% | 14,36% |
| Holborner Services Limited | 20% | 10,66% |
| Artertesia Consulting Limited | 6,7% | - |
| Others | 32% | 35,62% |
| | 100% | 100% |

## (b) Transactions with management and close family members

### *(i) Management remuneration*

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

| mln RUR | Six-month period ended 30 June 2010 | Six-month period ended 30 June 2009 |
|---|---|---|
| Salaries and bonuses | 48 | 247 |
| Contributions to State pension fund | 1 | 5 |
| | 49 | 252 |

### *(ii) Other transactions*

As at 30 June 2010 other investments include an interest-bearing loan to the Founding shareholder amounting to RUR 15 million (2009: RUR 15 million).

## (c) Transactions with other related parties

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

### *(i) Loans receivable from related parties*

At 30 June 2010 the Group had an outstanding interest-bearing loan (15% per annum) receivable from a related party amounting to RUR 1,075 million, including interest receivable of RUR 211 million (2009: RUR 951 million, including interest receivable of RUR 133 million). The loan matures in May 2012.

During the six-month period ended 30 June 2010 the Group received interest income on the loan issued to related parties of RUR 76 million (2009: RUR 64 million)

### *(ii) Accounts receivable from related parties*

During the six month period ended 30 June 2009 the Group rendered transportation services to a related party for a commission of RUR 3 million.

During 2007 the Group sold its shares in Bank Zhilfinans to a related party controlled by the Founding Shareholders, as at 30 June 2010 there is no outstanding balance of accounts receivable from this transaction (31 December 2009: RUR 11 million).

### *(iii) Accounts payable to related parties*

During the six month period ended 30 June 2010, the Group participated as a contractor in construction contracts with a related party and the outstanding balance of accounts payable from these transactions as at 30 June 2010 amounted to RUR 1,019 million (31 December 2009: RUR 909 million).

At 30 June 2010 the Group had promissory notes payable to related parties of RUR 25 million (31 December 2009: RUR 40 million).

### *(iv) Transactions with Bank ZhilFinance, controlled by the Founding Shareholders*

A summary of transactions Bank ZhilFinance, is as follows:

| mln RUR | Six-month period ended 2010 | Six-month period ended 2009 |
|---|---|---|
| Loans received during the period (14% - 15% per annum payable on demand) | - | 240 |
| Loans repaid during the period | - | 196 |

In 2008 the Group acquired a mortgage loan portfolio from Bank ZhilFinance for a consideration of RUR 2,376 million. The mortgage loans have been provided by the bank to third party individuals who entered into preliminary agreements with the Group to acquire apartments. The loans are secured by the underlying apartments. The loans are primarily RUR denominated and bear interest of 13.5% to 16% per annum. The balance of loans of RUR 118 million as at 30 June 2010 (31 December 2009: RUR 227 million) is included in other investments.

During the six-month period ended 30 June 2010 certain customers of the Group defaulted on mortgage loans issued by Bank ZhilFinance. The apartments were acquired through preliminary purchase agreements and pledged to the bank. Title for the real estate was not yet transferred to customers. The lender claimed for the pledges during the reporting period. The total value of the pledged apartments to be transferred to Bank ZhilFinance amounted to RUR 33 million as at 30 June 2010 (31 December 2009: nil).

As at 30 June 2010 the Group's cash deposits at Bank ZhilFinance amounted to RUR 7 million (31 December 2009: RUR 1,369 million).

***(v) Transactions with related parties under co-investment agreements***

Starting from 2005, the Group provided loans and made prepayments to ZAO Park-City Investments, an equity accounted investee, to finance the development of a land plot in the centre of Moscow. During the six month period ended 2010, the Group issued loans of RUR 179 million to this company (2009: 78 million) to finance construction. These loans have been classified as prepayments for real estate. The loans as at 30 June 2010 amounted to nil, after impairment of RUR 637 million (31 December 2009: RUR 458 million, after impairment of RUR 101 million).

In May 2009 the Group provided a guarantee to a bank in relation to the bank loan of USD 75 million received by related party participated as co-investor in Park City. The facility is used to finance predevelopment of the project. The loan bears variable interest rate of 14 % and matures in September 2010. The guarantee was granted at nil consideration.

***(vi) Transactions with PSG Osnova controlled by Founding shareholders***

*Transactions related to insurance contracts*

During the six-month period ended 30 June 2010 the Group paid RUR 23 million (2009: RUR 10 million) to PSG Osnova under a property insurance contract. Accounts payable to PSG Osnova as at 30 June 2010 amounted to RUR 8 million (31 December 2009: RUR 2 million).

*Advances received*

In March 2009 PSG Osnova entered into a contract to acquire from the Group non-residential and residential property, included in the closing balance of property, plant and equipment, for a consideration of RUR 67 million. The consideration received is included in advances from customers. The transaction will result in a net loss of RUR 10 million which has been recognized. As at 30 June 2010 the title for the property has not been transferred to PSG Osnova.

### (d) Pricing policy

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

## 18 Events subsequent to the balance sheet date

*Deferral of loan repayments*

On 24 August 2010 two major lenders of the Group agreed to defer the repayment of overdue loans in amount of approximately RUR 1,560 million to January 2012 and July 2013.

In September 2010 the Group repaid overdue loans in amount of RUR 312 million.

*Acceptance of buildings*

In September 2010 the Group completed 2 buildings with net saleable area of 20,433 square meters.

*Additional share issue*

On 28 July 2010 the Board of Directors unanimously voted for an increase of the Company's charter capital by means of secondary public offering of up to 123,315,000 new ordinary shares with a par value of 62.50 per share. The additional issue will be placed by means of an open subscription. At the date of approval of these condensed consolidated interim financial statements the additional share issue was registered with the Federal Service on Financial Markets (FSFM) of Russian Federation.

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## Independent Auditors' Report

The Board of Directors
OAO Group of Companies PIK

*Introduction*

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

*Scope of Review*

Except as described in the Basis for Qualified Conclusion paragraph, 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 condensed consolidated interim financial information 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.

*Basis for Qualified Conclusion*

During the six month period ended 30 June 2009, the Group entered into a number of transactions with an entity for which indications exist that it may be a related party. Management has been unable to identify the beneficial owners of this entity to determine whether the accrual of interest expense and related penalties of RUR 1,039 million and an outstanding loan payable balance of RUR 1,987 million are related party transactions and balances. It was impracticable to satisfy ourselves as to whether this entity is a related party. Accordingly, we were unable to determine whether the disclosure of related party transactions and outstanding balances as at and for the six month period ended 30 June 2009, which are required to be disclosed by International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, is complete.

*Qualified Conclusion*

Based on our review, except for the effects of the omission of the disclosure on the corresponding financial information, if any, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 June 2010 and for the six month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*Emphasis of Matter*

Without further qualifying our conclusion, we draw attention to the fact that the corresponding figures presented, excluding the adjustments described in Note 5, are based on the condensed consolidated interim financial information of the Group as at and for the six month period ended 30 June 2009 and the annual consolidated financial statements as at and for the year ended 31 December 2009. We have audited the adjustments described in Note 5 that were applied to restate the annual consolidated financial statements as at and for the year ended 31 December 2009. In our opinion, such adjustments are appropriate and have been properly applied.

ZAO KPMG

ZAO KPMG
4 October 2010