RSG INTERNATIONAL LIMITED

Consolidated financial statements

For the year ended 31 December 2010

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General information

Board of Directors

Marios Nikolaides

Company secretary

A.J.K. Management Services Limited
1 Naousis, Karapatakis bldg
Larnaca, 6018
Cyprus

Registered office

1 Naousis, Karapatakis bldg
Larnaca, 6018
Cyprus

Auditors

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
36 Byron Avenue
P.O. Box 21656
1511 Nicosia
Cyprus

Directors' report

The Board of Directors of RSG International Limited (the "Company") presents herewith its report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

Principal activities

The Group is involved in real estate development in the Russian Federation.

Examination of the development, position and performance of the activities of the Group

The Board of Directors has assessed the risks set out in this report and believes that steps taken to mitigate the risks are sufficient to prevent their material adverse effect on the financial performance and financial position of the Group. Therefore: (i) the current financial position as presented in the consolidated financial statements is considered satisfactory; (ii) the Board of Directors does not expect major changes in the principal activities of the Group in the foreseeable future.

Financial results and dividends

The results of the Group for the respective periods are set out in the Statement of Operations and Statement of Comprehensive Income on pages 1 and 2 of the consolidated financial statements.

The Board of Directors does not recommend the payment of a dividend.

Main risks and uncertainties

In the ordinary course of business activity, the Group is exposed to a variety of risks the most important which are credit risk, liquidity risk and market risk. These risks are identified, measured and monitored through various control mechanisms at the operating level of subsidiaries. Detailed information relating to these risks is set out in the IFRS consolidated notes in Note 24, Financial Risk Management Objectives and Policies.

Share capital

There were no changes in the share capital of the Company during the year ended 31 December 2009.

On 29 June 2010 and 30 June 2010, the Company issued cumulatively 3,887,450 ordinary shares of US$1 each at a premium of US$99 each. Settlement was effected through contribution by shareholder Renova Stroy Holding Limited, the Group's controlling shareholder, all of the ownership interests in 17 subsidiaries.

The authorized and issued share capital of RSG International Limited consists of 3,888,677 ordinary shares.

Branches

The Company did not operate through any branches during the year.

Events subsequent to the balance sheet date

Events subsequent to the statement of financial position date are disclosed in Note 26, Subsequent Events.

Board of Directors

As at the date of this report the members of the Board of Directors, who all served throughout the year, are listed as follows:

Marios Nicolaides (Cypriot) – appointed on 24 March 2008

The Company's Articles of Association do not provide for the rotation of directors. Each appointed director shall hold office until the next annual general meeting and shall be eligible for re-election.

Directors' report (continued)

Auditors

The independent auditors of the Company, Ernst & Young Cyprus Limited, have expressed their willingness to continue in office. A resolution proposing their re-appointment and authorizing the Board of Directors to fix their remuneration will be submitted to the Members at the Annual General Meeting of the Company.

By order of the Board

Larnaca, 27 May 2011

A.J.K. Management Services Limited
Secretary

Ernst & Young Cyprus Limited
Nicosia Tower Centre
36 Byron Avenue, P.O. Box 21656
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Independent auditor's report

To the Members of RSG International Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of RSG International Limited (the "Company") and its subsidiaries (the "Group") on pages 1 to 47, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of directors' responsibility for the consolidated financial statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

A member firm of Ernst & Young Global Limited
Directors: George Kourris, Andreas Demetriou, Neophytos Neophytou, Yiannakis Theoklitou, Stavros C Pantzaris, Charalambos B Stylianou, Gabriel Onisiforou, Maarten Koper, Andreas Avraamides, Petros Liassides, Philippos Raptopoulos, Irene Psalti

Report on other legal and regulatory requirements

Pursuant to the requirements of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the accompanying report of the Board of Directors is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Andreas Avraamides
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
27 May 2011

Consolidated statement of operations

For the year ended 31 December 2010

(in thousands of US Dollars)

	Notes	Years ended 31 December 2010	2009
Revenues	6	456,476	198,951
Cost of sales	7	(356,883)	(175,641)
Gross profit		**99,593**	**23,310**
General and administrative expenses	7	(49,738)	(45,116)
Other operating income / (expenses), net	7	2,746	(3,772)
Change in fair value of investment property	11	76,226	194,784
Operating profit		**128,827**	**169,206**
Finance income	7	1,278	1,921
Finance expense	7	(28,273)	(16,691)
Foreign exchange gains / (losses), net		772	(751)
Impairment of goodwill	5	–	(4,734)
Gain from a bargain purchase	3	12,922	–
Share of profits of associates	4	1,540	2,753
Profit before income tax		**117,066**	**151,704**
Income tax expense	8	(28,401)	(38,878)
Net profit for the year		**88,665**	**112,826**

The accompanying notes on pages 6 to 47 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2010

(in thousands of US Dollars)

	Notes	*Years ended 31 December 2010*	*2009*
Net profit		**88,665**	**112,826**
Other comprehensive income			
Effect of translation to presentation currency		(27,656)	13,490
Share of other comprehensive income of associates accounted for using the equity method		742	127
Total other comprehensive income, net of tax		**(26,914)**	**13,617**
Total comprehensive income, net of tax		**61,751**	**126,443**

The accompanying notes on pages 6 to 47 form an integral part of these consolidated financial statements.

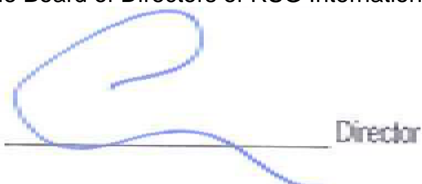
Consolidated statement of financial position

At 31 December 2010

(in thousands of US Dollars)

	Notes	31 December 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment	9	54,122	54,666
Intangible assets other than goodwill	10	1,413	1,579
Goodwill	5	11,513	11,624
Investments in associates	4	6,175	3,866
Investment properties	11	527,490	448,998
Deferred income tax assets	8	10,576	7,253
VAT recoverable	12	233	226
Interest-bearing loans receivable	13	486	2,739
Inventories	14	68,964	31,643
		680,972	**562,594**
Current assets			
Inventories	14	333,336	267,573
Trade and other receivables	15	178,108	4,409
Prepayments		6,170	9,939
Interest-bearing loans receivable	13	5,047	1,807
Income tax receivable		–	1,164
Other taxes recoverable	12	24,217	15,930
Cash and cash equivalents	16	36,289	17,490
		583,167	**318,312**
Total assets		**1,264,139**	**880,906**
Equity and liabilities			
Equity			
Issued capital	17	3,888	2
Share premium	1,17	384,857	–
Capital contribution reserve		68,769	58,098
Business combination reserve	1	133,907	491,377
Retained earnings		(235,823)	(324,488)
Foreign currency translation reserve		(17,152)	9,762
Total equity		**338,446**	**234,751**
Non-current liabilities			
Interest-bearing loans and borrowings	18	178,547	181,522
Deferred income tax liabilities	8	112,754	79,878
Other liabilities		5	42
		291,306	**261,442**
Current liabilities			
Trade and other payables	19	59,693	32,805
Advances from customers	20	53,772	118,604
Interest-bearing loans and borrowings	18	508,108	221,185
Income tax payable		4,039	439
Other taxes payable		2,702	1,729
Provisions	21	6,073	9,951
		634,387	**384,713**
Total liabilities		**925,693**	**646,155**
Total equity and liabilities		**1,264,139**	**880,906**

On May 27, 2011 the Board of Directors of RSG International Limited authorised these financial statements for issue.

Marios Nicolaides  Director

The accompanying notes on pages 6 to 47 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2010

(in thousands of US Dollars)

	Years ended 31 December	
	2010	***2009***
Cash flows from operating activities:		
Profit before income tax	117,066	151,704
Adjustments for:		
Depreciation and amortization (Note 9, 10)	3,018	1,056
Gain from bargain purchase (Note 3)	(12,922)	–
Interest income	(1,034)	(1,010)
Interest expense	19,056	6,977
Change in fair value of investment properties (Note 11)	(76,227)	(194,784)
Loss / (gain) on sale of property, plant and equipment	2	(38)
Change in inventory allowance for net realizable value (Note 14)	(5,788)	260
Bad debt expense	784	819
Change in other provisions	2,159	2,555
Impairment of goodwill (Note 5)	–	4,734
Foreign exchange (gains) / losses	(772)	751
Imputed interest on loans payable	8,972	8,803
Share of profits of associates (Note 4)	(1,540)	(2,753)
Other adjustments	(5)	31
Operating cash flows before working capital changes	**52,769**	**(20,895)**
Changes in working capital:		
Increase in trade and other receivables	(174,782)	(119)
Increase in inventories	(48,515)	(33,795)
Increase / (decrease) in trade and other payables	24,393	(22,527)
Decrease / (increase) in prepayments	3,706	(3,582)
Increase in VAT receivable	(2,114)	(13,957)
(Decrease) / increase in advances received	(56,524)	72,829
Decrease in other taxes payable	(8,375)	(490)
Cash used in operating activities	**(209,442)**	**(22,536)**
Income tax paid	(2,991)	(150)
Interest paid	(25,025)	(12,722)
Interest reimbursed by governmental bodies (Note 18)	3,695	5,407
Net cash flows used in operating activities	**(233,763)**	**(30,001)**
Cash flows from investing activities:		
Acquisition of subsidiaries, net of cash acquired (Note 3)	2	1,054
Purchase of property, plant and equipment	(8,273)	(46,227)
Purchase of investment properties	(301)	(2,737)
Issuance of loans receivable	(306)	(1,241)
Repayment of loans receivable including interest	3	2,194
Net cash flows used in investing activities	**(8,875)**	**(46,957)**
Cash flows from financing activities:		
Proceeds from borrowings	492,330	169,311
Repayment of borrowings	(231,275)	(85,565)
Net cash flows from financing activities	**261,055**	**83,746**
Effect of exchange rate changes on cash and cash equivalents	382	(269)
Net increase in cash and cash equivalents	**18,799**	**6,519**
Cash and cash equivalents at the beginning of the period	**17,490**	**10,971**
Cash and cash equivalents at the end of the period (Note 16)	**36,289**	**17,490**

The accompanying notes on pages 6 to 47 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2010

(in thousands of US Dollars)

	Issued capital	*Share premium*	*Capital contribution reserve*	*Business combination reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Total equity*
As at 31 December 2008	**2**	–	**50,571**	**491,377**	**(437,314)**	**(3,855)**	**100,781**
Net profit for the period	–	–	–	–	112,826	–	112,826
Other comprehensive income	–	–	–	–	–	13,617	13,617
Total comprehensive income	**–**	**–**	–	–	**112,826**	**13,617**	**126,443**
Discount on loans received from entities under common control (Note 18)	–	–	7,527	–	–	–	7,527
As at 31 December 2009	**2**	–	**58,098**	**491,377**	**(324,488)**	**9,762**	**234,751**
Net profit for the period	–	–	–	–	88,665	–	88,665
Other comprehensive loss	–	–	–	–	–	(26,914)	(26,914)
Total comprehensive income	**–**	**–**	–	–	**88,665**	**(26,914)**	**61,751**
Issue of share capital (Note 1 and 17)	3,886	384,857	–	(384,857)	–	–	3,886
Transfer of controlling interest in subsidiaries in transactions with entities under common control (Note 1)	–	–	–	27,387	–	–	27,387
Discount on loans received from entities under common control (Note 18)	–	–	10,671	–	–	–	10,671
As at 31 December 2010	**3,888**	**384,857**	**68,769**	**133,907**	**(235,823)**	**(17,152)**	**338,446**

The accompanying notes on pages 6 to 47 form an integral part of these consolidated financial statements.

(in thousands of US Dollars)

1. Corporate information

The consolidated financial statement of RSG INTERNATIONAL LIMITED (hereinafter “the Company”) and its subsidiaries (hereinafter, “RSG International” or “the Group”) for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 27 May 2011.

RSG INTERNATIONAL LIMITED was incorporated in the Republic of Cyprus on 24 March 2008 as a limited liability company under the Republic of Cyprus Companies Law, Cap.113. The Company’s registered office is located at 1 Naousis Street, Karapatakis building, P.O. 6018, Larnaca, the Republic of Cyprus.

Mr. V. Vekselberg is the ultimate beneficiary of the Group.

RSG International was formed in June 2010 through a reorganization of entities under common control. Under the reorganization plan Renova Stroy Holding Limited (hereinafter RSH Ltd. or the “Predecessor”) the Group’s controlling shareholder contributed all of the ownership interests in its subsidiaries in exchange for 3,887,450 shares of the Company.

As the controlling interests in subsidiaries were transferred to the Group in transactions with entities under common control, these transfers of the controlling interests have been accounted for using the pooling of interests method and, as such, the financial statements have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented or, if later, the date of acquisition of the subsidiaries by the transferring entity.

Principal activities

Principal activities of the Group include investments in and construction of real estate properties for their further sale, rent or holding for appreciation purposes and construction of business and residential property in Moscow, Yekaterinburg, Yaroslavl, Krasnodar, Perm and other regions in the Russian Federation. The Group specializes on projects of Complex Territories' Development (CTD), which envisage creation of balanced city-building solution (residential properties, infrastructure, work, social sphere, leisure) and its implementation on the specific land plot.

The consolidated financial statements include the financial statements of RSG International and its operating subsidiaries, the major of which are listed in the following table:

№	*Entity*	*Country of incorporation*	*Activity*	*Effective ownership interest at 31 December 2010*
1	ZAO Renova StroyGroup	Russia	Management services	100%
2	OOO Renova StroyGroup Tower	Russia	Real estate development	100%
3	OOO Garazh-S	Russia	Real estate development	100%
4	OOO Renova StroyGroup-Akademicheskoe	Russia	Real estate development	100%
5	OOO Seventeenth block	Russia	Real estate development	100%
6	ZAO Yaroslavl-9	Russia	Real estate development	100%
7	OOO PSP-Express	Russia	Real estate development	100%
8	OOO MegaStroy	Russia	Real estate development	100%
9	OOO Elitcomplex	Russia	Real estate development	100%
10	ZAO Stroy-Capital	Russia	Real estate development	100%
11	ZAO Stroitelny Al’yans	Russia	Real estate development	100%
12	OOO RegionStroyInvest	Russia	Real estate development	100%
13	OOO Atman	Russia	Real estate development	100%
14	ZAO Renova-StroyGroup-Krasnodar	Russia	Real estate development	100%
15	OOO Tatlin	Russia	Rental income	100%

Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. During 2009 the Group’s activities in all of its operating segments were adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. For the year ended 31 December 2009 the Group reported operating cash outflow of $30,001 and net profit of $112,826. For the year ended 31 December 2010 the Group reported operating cash outflow of $233,763 and net profit of $88,665.

(in thousands of US Dollars)

1. Corporate information (continued)

Going concern (continued)

In the next twelve months the Group expects to finance its operating and investing activities primarily with cash generated from operations, by additional borrowings from financial institutions and shareholders and renegotiating of its short-term loans. Management believes that necessary financing will be available to the Group and it will be able to pay debts as they become due. In May 2011, and in conjunction with the contemplated bond offerings of the Group, the management of the ultimate shareholder approved the decision to subordinate to such bond debt the principal amounts of the loans due from the Group to the entities under common control of the ultimate shareholder in the total amount of $319,592, as of 31 March 2011 (calculated at the exchange rate of $ 28 US dollars per ruble). Refer to Note 26 for details.

At 31 December 2010, the Group was in compliance with all of its financial covenants. Management anticipates that the Group will comply with all debt covenants during the twelve month period subsequent to 31 December 2010.

Based on the current market conditions the Board and the management have reasonable expectations that the Group has adequate resources to continue its operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparation of these consolidated financial statements.

2. Significant accounting policies

2.1 Basis of preparation

Statement of compliance

These consolidated financial statements of the Group for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law, CAP. 113.

Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention except for investment properties, which as disclosed in the accounting policies below, have been measured at fair value.

The consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company's, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated.

2.2 Standards issued but not yet effective

The Group has not applied the following standards and IFRIC Interpretations that have been issued but are not yet effective:

Issued by the IASB and adopted by the European Union

- IAS 24 (revised) *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010);
- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative* IFRS 7 *Disclosures for First-time Adopters* (effective for annual periods beginning on or after 1 July 2010);
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IFRIC 14/IAS 19 *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011).

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.2 Standards issued but not yet effective (continued)

Issued by the IASB but not yet adopted by the European Union

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013);
- *Improvements to IFRSs*. Amendments issued in May 2010. The amendments are effective for annual periods beginning on or after 1 January 2011;
- Amendments to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 July 2011).
- Amendments to IAS 12 – *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012).
- Amendments to IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters* (effective for annual periods beginning on or after 1 July 2011).
- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013).

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

2.3 Significant accounting judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of investment properties

Investment property is stated at fair value as at the reporting date. Gains or losses arising from changes in the fair values are included in the statement of operations in the year in which they arise.

The fair value of investment properties is determined based on valuations performed by an accredited independent valuer. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Estimates to determine the fair value are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions. The Group performed selection of the method of valuation considering the following methods:

- Income method/Discounted cash flow (DCF) method;
- Comparative method.

In the course of this analysis the advantages and disadvantages of each applied technique were considered in relationship to the property being appraised and to the market. In the end the final conclusions on the Subject market and fair values are made based on all relevant factors and best judgment.

The carrying amount of investment properties at 31 December 2010 and 2009 was $527,490 and $448,998, respectively.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.3 Significant accounting judgements and estimates (continued)

Techniques used for valuing investment property

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Comparative method includes collection of data of sales and offers of properties similar to evaluated properties. The prices for similar properties are then adjusted for significant parameters which differentiate the properties. After adjustment prices may be used for determining market prices of the evaluated properties. The comparables method takes into account the supply and demand parity on the market, as well as other external factors.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's 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 group of assets. Where the carrying amount of an asset 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 assessment of the time value of money and the risks specific to the assets. In 2010 and 2009 no impairment loss was identified and recognized by the Group.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require 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. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.3 Significant accounting judgements and estimates (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, or whenever indicators of impairment are present. 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.

The carrying amount of goodwill at 31 December 2010 and 2009 was $11,513 and $11,624, respectively. More details are provided in Note 5. No impairment loss of goodwill was recognised by the Group in the year 2010. As at 31 December 2009, the Group recognised impairment loss of $4,734 (Note 5).

Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. At 31 December 2010, the carrying amount of capitalised development costs was $3,272 (2009: $3,362).

Litigations

The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 23.

Current taxes

The Group recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. More details are provided in Note 23.

Allowances

Inventory is stated at the lower of cost and net realizable value (NRV) (Note 14). NRV is assessed with reference to market conditions and prices existing at the balance sheet date and is determined by the Group's sales and marketing managers. Estimates of NRV of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period. As of 31 December 2010 and 2009, allowance for net realizable value in respect of inventories amounted to $6,417 and $12,279, respectively (Note 14).

The Group makes allowances for doubtful loans receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of 31 December 2010 and 2009, allowances for doubtful accounts in respect of loans receivables had been made in the amount of $nil (Note 13).

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.3 Significant accounting judgements and estimates (continued)

Deferred income tax assets

Deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the statement of operations.

2.4 Business combinations and goodwill

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Goodwill is initially measured at cost being the excess of the consideration transferred over the subsidiary's 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 recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group determines whether goodwill is impaired at least on an annual basis. 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 combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Where goodwill is generated by the recognition, on the acquisition of a business, of deferred tax liabilities in excess of the fair value of such liabilities, the post-tax discount rate is adjusted in order to determine the appropriate pre-tax discount rate used to determine the value in use for impairment testing purposes (Note 5). Therefore, the deferred tax liability in excess of its fair value, as determined at acquisition, is offset against the goodwill and the net amount tested to determine whether that goodwill is impaired.

To the extent that the deferred tax provision in excess of the fair value of that liability is subsequently reduced or eliminated, for example through a change in the tax circumstances of the Group, then the goodwill arising from the initial recognition of the deferred tax provision may become impaired.

Increases in ownership interests in Group entities

The differences between the carrying values of net assets attributable to interests in entities acquired and the consideration given for such increases are charged or credited to retained earnings.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.4 Business combinations and goodwill (continued)

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interest in entities in transactions with parties under common control with the Group are accounted for using the pooling of interest method.

The assets and liabilities of entities transferred under common control are recorded at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of the acquired net assets, and the consideration paid is accounted for in the financial statements as an adjustment to the shareholders' equity.

2.5 Investments in associates

The Group's investments in its associates are accounted for using the equity method and are initially recognized at cost, including goodwill. An associate is an entity in which the Group has significant influence. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the statement of operations, and its share of movements in reserves is recognized in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.6 Foreign currency translation

The companies of the Group which are incorporated in the Russian Federation maintain their accounting records in Russian Rubles and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with the Group's accounting policies. The principal adjustments relate to use of fair values and income taxes.

Group companies which are incorporated in the Republic of Cyprus maintain their accounting records in US Dollars and prepare their statutory financial statements in accordance with IFRS as adopted by the European Union (EU) and the requirements of the Republic of Cyprus Companies Law, Cap.113.

The presentation currency of the Group is the US Dollar because the presentation in US Dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group's subsidiaries located in the Russian Federation is the Russian Ruble (the "ruble"). The functional currency of the subsidiaries located in other countries is the US Dollar. As at the reporting date, the assets and liabilities of the subsidiaries with functional currency other than the US Dollar are translated into the presentation currency at the rate of exchange ruling at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a subsidiary with a functional currency other than the US Dollar, the deferred cumulative amount recognized in equity relating to that particular subsidiary is recognized in the statement of operations.

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate ruling at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. All resulting differences are taken to the statement of operations.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments – Initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of operations.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluates whether its intent to sell the financial assets at fair value through profit or loss (held for trading) in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of operations. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. 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 income in the statement of operations. The losses arising from impairment are recognized in the statement of operations in finance costs.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments – Initial recognition and subsequent measurement (continued)

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized 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 amortization is included in finance income in the statement of operations. The losses arising from impairment are recognized in the statement of operations in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2010 and 2009.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statement of operations in finance costs and removed from the available-for-sale reserve.

The Group evaluates whether its ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management intents significantly change to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity investments is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statement of operations.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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 recognized to the extent of the Group’s continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments – Initial recognition and subsequent measurement (continued)

ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of operations.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of operations – is removed from other comprehensive income and recognized in the statement of operations.

Impairment losses on equity investments are not reversed through the statement of operations; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of operations.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments – Initial recognition and subsequent measurement (continued)

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of operations, the impairment loss is reversed through the statement of operations.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of operations.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of operations when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized 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 amortization is included in finance cost in the statement of operations.

iv) Offsetting of financial instruments

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments – Initial recognition and subsequent measurement (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

2.8 Cash and cash equivalents

Cash in the statement of financial position comprises cash at banks and in hand, short-term deposits with an original maturity of three months or less and bank's promissory notes used as payment instrument.

2.9 Trade receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts.

2.10 Value added tax

Tax legislation of the Russian Federation permits settlement of value added tax ("VAT") on a net basis.

Value added tax payable

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the statement of financial position date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales. VAT receivable related to construction of residential property cannot be claimed for offset, thus this VAT is capitalized in the cost of such property.

2.11 Inventories

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

Completed property and property under development

Completed property and property under development is property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Such property is stated at the lower of cost or net realizable value. Cost is based on the individual cost method and includes the following:

- freehold and leasehold rights for land;
- planning and design costs, costs of site preparation;
- cost of raw materials;
- labor costs and amounts paid to subcontractors for construction;
- construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity;
- borrowing costs.

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

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.11 Inventories (continued)

Inventories are classified as current when the following conditions are met: i) construction is ongoing; ii) the completion and the sale of the asset is anticipated to occur in near future, which is typically in the following 12 months, and no significant delays in construction are expected. Otherwise the inventory should be classified as non-current.

2.12 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the statement of operations.

An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	30 to 50
Fitting and fixtures	30
Office equipment and others	3 to 10
Leasehold improvements	Operating lease term

An item of property, plant and equipment and any significant part initially recognized is derecognized 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 statement of operations when the asset is derecognized.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

2.13 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 amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of operations in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using straight-forward method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of operations in the expense category consistent with the function of the intangible asset.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.13 Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. When there is an indication that the carrying value of these assets may be impaired, the test for impairment is performed immediately. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 recognized in the statement of operations when the asset is derecognized.

2.14 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, 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.

Impairment losses of continuing operations are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the statement of operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2.15 Trade and other payables

Trade and other accounts payable are recognized at cost. Cost is equal to the fair value of consideration to be paid in the future for goods and services as measured at the date when such goods and services are received by the Group companies. If such a liability is restructured the fair value of the restructured liability is assessed. Any gain or loss on restructuring is recognized in the consolidated statement of operations. The resulting balance is then recognized at amortized cost using the effective interest rate method.

2.16 Investment property

Investment property comprises land, completed property and property under construction (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 to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of a day to day servicing. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains and losses arising from changes in the fair values of investment properties are included in the statement of operations in the year in which they arise.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.16 Investment property (continued)

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of operations in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. 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.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of operations. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of operations.

Interest costs on borrowings to finance the construction and development of investment property are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2.17 Borrowings

Borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an adjustment to interest expense over the period of the borrowings.

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

2.18 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the statement of financial position method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.19 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a Lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of operations.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of operations on a straight line basis over the lease term.

Operating lease contracts – Group as lessor

The Group has entered into commercial property leases on its 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.

Operating lease payments from lessees are recognized as revenue in the statement of operations on a straight line basis over the lease term.

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

2.21 Equity

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as a share premium.

Treasury shares

Where the Company or its Group entities purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are cancelled or reissued. No gain or loss is recognized in the statement of operations on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognized as a liability and deducted from equity at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the financial statements are authorized for issue.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.22 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventory are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from rendering of services is recognized in the period the services are provided based on the total contract value and the percentage completed. The percentage of completion is made by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Rental income receivable under operating leases is recognized on a straight-line basis over the term of the lease, except for contingent rental income which is recognized 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.

Premiums received to terminate leases are recognized in the statement of operations when they arise.

2.23 Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets cclassified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of operations.

2.24 Exchange transactions

The Group enters into investment agreements to construct buildings, where a certain number of apartments and/or commercial area should be given away to the local authorities (as well as certain infrastructure facilities should be constructed) in exchange for development rights. This exchange is regarded as a transaction that generates revenue. When the fair value of developments rights received can be measured reliably the revenue is measured at the fair value of the developments rights, adjusted for any cash or cash equivalents transferred. When the fair value of developments rights received cannot be measured reliably the revenue is measured at the fair value of real estate properties given up, adjusted for any cash or cash equivalents transferred.

2.25 Employee benefits

State pension scheme

In the normal course of business the Group contributes to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. Mandatory contributions to the governmental pension scheme are expensed when incurred. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

2.26 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is credited to the cost of the related asset and is released to income as a reduction of depreciation of depreciable assets or reduction of cost of non-depreciable assets. Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the statement of operations over the expected useful life of the relevant asset by equal annual installments.

(in thousands of US Dollars)

2. Significant accounting policies (continued)

2.27 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.

2.28 Reclassifications

During 2010, the Group made certain reclassifications to the comparative balances to conform to the 2010 presentation.

Reclassifications to the comparative balances as at 31 December 2009:

	As reclassified	***Reclassification***	***As previously reported***
Consolidated statement of financial position			
Deferred income tax assets	7,253	(5,416)	12,669
Deferred income tax liabilities	79,878	(5,416)	85,294
Inventories, non-current	31,643	9,198	22,445
Inventories, current	267,573	(9,198)	276,771

	As reclassified	***Reclassification***	***As previously reported***
Consolidated statement of operations			
General and administrative expenses	(45,116)	1,204	(46,320)
Other operating expenses	(3,772)	(1,204)	(2,568)

The Group does not present the effect of presentation in the consolidated statement of financial position as of 31 December 2008 as it is impracticable to recreate the underlying information in a way that allows reclassification from current to non-current inventories, and netting of deferred income tax assets with deferred income tax liabilities.

3. Business combinations

ZAO "Renova-Stroy Group Krasnodar"

On 20 February 2009, the Group acquired 100% of ordinary shares of ZAO "Renova-Stroy Group Krasnodar" (the Russian Federation) for purchase consideration of $10,932. ZAO "Renova-Stroy Group Krasnodar" had two subsidiaries at the date of its acquisition – OOO "Largo" (the Russian Federation) and OOO "Atman" (the Russian Federation). The main activity of ZAO "Renova-Stroy Group Krasnodar" is the construction of residential property in Krasnodar region. As a result, the consolidated financial position and the consolidated results of operations of ZAO "Renova-Stroy Group Krasnodar" were included in the Group's consolidated financial statements from 20 February 2009.

The table below sets forth the fair values of ZAO "Renova-Stroy Group Krasnodar"'s identifiable assets and liabilities at the date of acquisition:

	As at 20 February 2009
Intangible assets	917
Inventories	17,867
Trade and other accounts receivable	513
Cash	1,054
Deferred tax assets	143
Loans payable to related parties	(18,722)
Loans payable to third parties	(112)
Advances received	(3,961)
Trade and other payables	(259)
Net assets	**(2,560)**
Purchase consideration	10,932
Goodwill	**13,492**
In 2009, cash flow on the acquisition was as follows:	
Net cash acquired with the subsidiary	1,054
Cash paid	–
Net cash inflow	**1,054**

(in thousands of US Dollars)

3. Business combinations (continued)

ZAO "Renova-Stroy Group Krasnodar" (continued)

Purchase consideration in the amount of $10,932 represented the amounts due to the acquired company by the Group at the date of the acquisition.

Fair value of net assets was estimated by independent valuer. The excess of cost of acquisition over the net assets acquired was $13,492. The goodwill of $13,492 comprises the value of expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

For the period from 20 February to 31 December 2009, ZAO "Renova-Stroy Group Krasnodar" and its subsidiaries incurred net loss amounting to $1,810 and generated revenues of $3,904.

OOO "Uralskaya Companiya Razvitiya" ("UCR")

In March 2008, the Predecessor issued loan to Nordic Vidi Limited ("Nordic") secured by 100% of ordinary shares of Heyonta Technologies Limited (the Republic of Cyprus) ("Heyonta"). On 13 May 2010, the shares of Heyonta were transferred in full settlement of the loan issued to Nordic. The total amount of principal and interest outstanding under the loan agreement was $27,387 at the date of the shares transfer.

Under the terms of settlement agreement, Nordic transferred 100% ownership interest in Heyonta together with its wholly owned subsidiary UCR. UCR holds 8 land plots in the Ural region of the Russian Federation. The main activity of UCR is the construction of residential properties. As a result, consolidated financial position and the consolidated results of operations of Heyonta and UCR were included in the Group's consolidated financial statements from 13 May 2010.

The table below sets forth the fair values of UCR identifiable assets and liabilities at the date of acquisition:

	As at 13 May 2010
Investment properties	2,409
Inventories	48,821
Cash	2
Deferred tax liabilities	(10,140)
Trade and other payables	(12)
Net assets	**41,080**
Consideration paid by the Predecessor	27,388
Purchase consideration	770
Gain from a bargain purchase	**12,922**

In the six months ended 30 June 2010, cash flow on the acquisition was as follows:

Net cash acquired with the subsidiary	2
Cash paid	–
Net cash inflow	**2**

Purchase consideration in the amount of $770 represented the amounts due to the acquired company by the Group at the date of the acquisition.

Fair value of net assets was estimated by independent valuer. The excess of the net assets acquired over the cost of acquisition was $12,923. The gain from the bargain purchase of $12,923 was recognized in the statement of operations.

For the period from 13 May to 31 December 2010 Heyonta and UCR incurred net loss of $74 and revenues of $nil.

Disclosure of other information in respect of business combinations

As the acquired subsidiaries did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

(in thousands of US Dollars)

4. Investment in associates

The Group accounted for investments in associates under the equity method.

ZHSPK "Akademichesky"

In 2008, the Group acquired a 20% voting interest and 36.25% interest in profits of ZHSPK "Akademichesky", an associate that is engaged in construction activities and is located in Ural Region, the Russian Federation. Cash consideration amounted to $4,411.

Main asset of ZHSPK "Akademichesky" ("ZHSPK") is a land plot with fair value of $29,116 as of 31 December 2010 (as of 31 December 2009: $24,840). This associate's net assets as of 31 December 2010 amounted to $30,141 (as of 31 December 2009: $26,329).

The table below sets forth ZHSPK's income and expenses from the date of acquisition of interest in the associate:

	The year ended 31 December 2010	***The year ended 31 December 2009***
Change in fair value of investment property	4,477	7,736
Rent expenses	(20)	(19)
Net profit	**4,457**	**7,717**
Group's share of profit of the associate	**1,615**	**2,801**

The table below sets forth ZHSPK's assets and liabilities as of 31 December 2010 and 31 December 2009:

	As of 31 December 2010	***As of 31 December 2009***
Total assets	30,249	26,593
Total liabilities	(108)	(264)
Net assets	**30,141**	**26,329**

The movement in investments in the associate was as follows:

	ZHSPK
Investment at 1 January 2009	**792**
Share of profit	2,801
Translation difference	(127)
Investment at 31 December 2009	**3,466**
Share of profit	1,615
Translation difference	745
Investment at 31 December 2010	**5,826**

ZAO "Sverdlovskoe"

In 2009, the Group acquired a 9.96% interest in ZAO "Sverdlovskoe", an associate that is engaged in agricultural activities and is located in the Ural Region, the Russian Federation. Cash consideration amounted to $448. The Group has significant influence over ZAO "Sverdlovskoe" due to the interest held coupled with the loan issued of $4 million as at 31 December 2010 ($3 million on the date of acquisition) (Note 13).

The table below sets forth income and expenses of ZAO "Sverdlovskoe" from the date of acquisition of interest in the associate:

	Period from 26 June 2009 till 31 December 2009
Operating loss	(353)
Finance expenses	(494)
Finance income	85
Other income, net of expenses	284
Net loss	**(478)**
Group's share of loss of the associate	**(48)**

(in thousands of US Dollars)

4. Investment in associates (continued)

ZAO “Sverdlovskoe” (continued)

	Year ended 31 December 2010
Operating loss	(34)
Finance expenses	(991)
Finance income	252
Other expenses, net of income	23
Net loss	**(750)**
Group’s share of loss of the associate	**(75)**

The movement in investments in the associate was as follows:

Investment at 1 January 2009	–
Additional investments	448
Share of loss	(48)
Investment at 31 December 2009	**400**
Share of loss	(75)
Translation difference	(2)
Investment at 31 December 2010	**323**

The table below sets forth ZAO “Sverdlovskoe”’s assets and liabilities as of 31 December 2010 and 2009:

	As of 31 December 2010	*As of 31 December 2009*
Total assets	7,520	7,645
Total liabilities	(6,887)	(5,888)
Net assets	**633**	**1,757**

5. Goodwill

The table below presents movement in the carrying amount of goodwill.

	Gross Amount	*Impairment Losses/ Translation Differences*	*Carrying Amount*
At 1 December 2009	**241**	**–**	**241**
Goodwill recognised on acquisitions of subsidiaries (Note 3)	13,492	–	13,492
Impairment of goodwill (ZAO “Renova-Stroy Group Krasnodar” cash generating units)	–	(4,734)	(4,734)
Translation differences	2,625	–	2,625
At 31 December 2009	**16,358**	**(4,734)**	**11,624**
Translation differences	(148)	37	**(111)**
At 31 December 2010	**16,210**	**(4,697)**	**11,513**

Goodwill was tested for impairment as of 30 June 2010 and 31 December 2009. Events and circumstances that led to recognition of impairment at 31 December 2009 are disclosed in Note 23 Operating Environment of the Group. As of 31 December 2010 the Group did not identify any indicators that could lead to impairment of goodwill.

(in thousands of US Dollars)

5. Goodwill (continued)

For the purpose of impairment testing the recoverable amount of goodwill has been determined based on value in use. Value in use has been calculated using cash flows projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating units. The key assumptions used by the management in value in use calculation are presented in the table below. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate. The Group expects the listed below cash-generating units to operate more than five years, therefore, a longer than five-year period is justified for cash flow projections used in impairment test.

	Period of forecast, years	*Pre-tax discount rate, %*	*Commodity*	*Average price per m2 (thousands of rubles)*
OOO “Tatlin” as at 31 December 2010	18	22	Rental income	6.7
OOO “Tatlin” as at 31 December 2009	19	22	Rental income	6.7
ZAO “Renova-Stroy Group Krasnodar” as at 31 December 2010	3-8	20	Investment property	45.2-87.7
ZAO “Renova-Stroy Group Krasnodar” as at 31 December 2009	4-9	20	Investment property	40.8-58.3

6. Revenues

Revenues include the following:

	For the years ended 31 December	
	2010	***2009***
Sale of inventory properties	444,460	187,184
Rental income	2,058	1,334
Other revenue	9,958	10,433
	456,476	**198,951**

In the sales of residential property for the years ended 31 December 2010 and 2009 was included imputed interest on advances received from individuals in the amount of $25,765 and $15,587, respectively.

7. Income and expenses

Staff costs and depreciation of property, plant and equipment included in cost of inventories, general and administrative expenses amounted to the following:

	For the years ended 31 December	
	2010	***2009***
Staff costs, including social security taxes	21,734	24,993
Depreciation of property, plant and equipment	2,816	801

Cost of sales

In the cost of sales of residential property for the years ended 31 December 2010 and 2009 was included imputed interest on advances received from individuals in the amount of $25,765 and $15,587, respectively.

(in thousands of US Dollars)

7. Income and expenses (continued)

General and administrative expenses

The structure of general and administrative expenses was the following:

	For the years ended 31 December	
	2010	***2009***
Payroll	20,902	20,764
Rent	3,589	3,681
Depreciation of property, plant and equipment	567	659
Amortization of intangible assets	202	255
Consulting	10,441	8,757
Audit fees	1,180	47
Other professional services fees	2,904	1,977
Advertising	197	200
Taxes	3,408	4,545
Telecommunication	190	212
Security	848	674
Other	5,310	3,345
	49,738	**45,116**

Finance income

The components of finance income were as follows:

	For the years ended 31 December	
	2010	***2009***
Interest on bank accounts	26	24
Interest on loans receivable	1,008	986
Amortization of loans commitments	244	911
	1,278	**1,921**

Finance expense

The components of finance expense were as follows:

	For the years ended 31 December	
	2010	***2009***
Interest expense	19,056	6,977
Amortization of discount (Note 18)	9,217	9,586
Other financial expenses	–	128
	28,273	**16,691**

Other operating expenses and income

The components of other operating income and expenses were as follows:

	For the years ended 31 December	
	2010	***2009***
Decrease / (increase) in the allowance for net realizable value of inventories	5,788	(260)
Penalty fees accruals	(54)	(816)
Other expenses, net	(2,988)	(2,696)
	2,746	**(3,772)**

(in thousands of US Dollars)

8. Income tax

The Group's income was subject to tax at the following tax rates:

	2010	*2009*
The Russian Federation	20.00%	20.00%
The Republic of Cyprus	10.00%	10.00%

In November 2008, a reduction of income tax rate from 24% to 20% was announced by government of the Russian Federation. The new rate became effective from 1 January 2009.

Major components of income tax expense for the years ended 31 December 2010 and 2009 were as follows:

	2010	*2009*
Income tax expense – current	(8,447)	(964)
Deferred tax expense – origination and reversal of temporary differences	(19,954)	(37,914)
Income tax expense	**(28,401)**	**(38,878)**

The major part of income taxes is paid in the Russian Federation.

A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate to income tax expense as reported in the Group's consolidated financial statements for the years ended 31 December as follows:

	2010	*2009*
Profit before income tax	**117,066**	**151,704**
At the Russian statutory income tax rate of 20%	(23,413)	(30,341)
Effect of non-deductible expenses	(6,330)	(17,391)
Effect of income exempt from tax	5,027	3,546
Effect of the difference in tax rates in countries other than the Russian Federation	(4,370)	928
Change in unrecognized deferred tax asset	685	4,380
Income tax expense	**(28,401)**	**(38,878)**

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2010 were as follows:

	31 December 2010	*Change recognized in the consolidated statement of operations*	*Acquisitions of new companies*	*Translation difference*	*31 December 2009*
Deferred income tax liabilities:					
Property, plant and equipment	–	12,073	–	(76)	(11,997)
Investment property	(99,767)	(36,631)	(484)	761	(63,413)
Inventory	–	15,436	(9,721)	(37)	(5,678)
Investments	(253)	77	–	(157)	(173)
Accounts payable and accruals	(3,952)	(3,388)	–	73	(637)
Accounts receivable and loans	(14,970)	(11,583)	–	9	(3,396)
Other	(3,093)	(3,105)	–	12	
	(122,035)	**(27,121)**	**(10,205)**	**585**	**(85,294)**
Deferred income tax assets:					
Property, plant and equipment	2,947	2,947	–	–	–
Tax losses available for offset	11,813	1,638	65	(44)	10,154
Inventory	5,097	2,582	–	–	2,515
	19,857	**7,167**	**65**	**(44)**	**12,669**
Total deferred income tax (liability) / asset	**(102,178)**	**(19,954)**	**(10,140)**	**541**	**(72,625)**
Represented by the following:					
Net deferred income tax assets	**10,576**	**3,258**	**65**	**–**	**7,253**
Net deferred income tax liabilities	**(112,754)**	**(23,212)**	**(10,205)**	**541**	**(79,878)**

(in thousands of US Dollars)

8. Income tax (continued)

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2009 were as follows:

	31 December 2009	*Change recognized in statement of operations*	*Acquisitions of new companies*	*Translation difference*	*31 December 2008*
Deferred income tax liabilities:					
Property, plant and equipment	(11,997)	(10,758)	(289)	(907)	(43)
Investment property	(63,413)	(25,743)	–	(1,963)	(35,707)
Inventory	(5,678)	(2,360)	–	36	(3,354)
Investments in associate	(173)	(173)	–	–	–
Accounts payable and accruals	(637)	298	–	(68)	(867)
Accounts receivable and loans	(3,396)	(3,178)	–	(218)	–
	(85,294)	**(41,914)**	**(289)**	**(3,120)**	**(39,971)**
Deferred income tax assets:					
Tax losses available for offset	10,154	4,013	–	(34)	6,175
Investments in associate	–	(724)	–	–	724
Accounts receivable and loans	–	(197)	–	(2)	199
Inventory	2,515	908	–	32	1,575
	12,669	**4,000**	**–**	**(4)**	**8,673**
Total deferred income tax (liability) / asset	**(72,625)**	**(37,914)**	**(289)**	**(3,124)**	**(31,298)**
Represented by the following:					
Net deferred income tax assets	**7,253**	**4,729**	**–**	**(2,454)**	**4,978**
Net deferred income tax liabilities	**(79,878)**	**(42,643)**	**(289)**	**(670)**	**(36,276)**

As of 31 December 2010 unused tax loss carry forward for which deferred tax assets were recognized approximated $59,065 and as of 31 December 2009 - $50,770. Deferred tax assets in the amount of $2,251 (31 December 2009: $637) have not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Losses, which are available for offset against future taxable profits of the companies in which the losses arose will expire during 2016 – 2020.

Net temporary differences of $369,920 and $246,247 as of 31 December 2010 and 31 December 2009, respectively, were associated with investments in subsidiaries. At 31 December 2010 and 31 December 2009 the Group did not recognise any deferred tax liability in respect of these temporary differences, as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

There is no withholding tax on payments of dividends by the Company to non-resident shareholders or shareholders that are companies resident in Cyprus. Payments of dividends to shareholders that are physical persons resident in Cyprus are subject to a 15% withholding special contribution for the defence.

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

(in thousands of US Dollars)

9. Property plant and equipment

Property, plant and equipment consisted of the following:

	Land	*Buildings*	*Fittings and fixtures*	*Leasehold improve-ments and other equipment*	*Assets under construction*	*Total*
Cost						
At 31 December 2008	**–**	**6,018**	**–**	**4,738**	**301**	**11,057**
Additions		–	–	410	44,281	**44,691**
Disposals		–	–	(1,223)	–	**(1,223)**
Transfers		–	44,106	349	(44,455)	**–**
Translation difference		(179)	2,157	(533)	58	**1,503**
At 31 December 2009	**–**	**5,839**	**46,263**	**3,741**	**185**	**56,028**
Additions	–	–	–	–	10,878	**10,878**
Disposals	–	(1)	–	(77)	(33)	**(111)**
Transfers	1,215	430	4,818	159	(6,622)	**–**
Transfer from/(to) inventory and investment property	–	330	(9,105)	237	270	**(8,268)**
Translation differences	(4)	(12)	40	(203)	(170)	**(349)**
At 31 December 2010	**1,211**	**6,586**	**42,016**	**3,857**	**4,508**	**58,178**
Accumulated depreciation						
At 31 December 2008	**–**	**(67)**	**–**	**(1,366)**	**–**	**(1,433)**
Depreciation charge for the year	–	(256)	(220)	(325)	–	**(801)**
Disposals	–	–	–	751	–	**751**
Translation difference	–	55	(11)	77	–	**121**
At 31 December 2009	**–**	**(268)**	**(231)**	**(863)**	**–**	**(1,362)**
Depreciation charge for the year	–	(206)	(2,043)	(567)	–	**(2,816)**
Disposals	–	–	–	55	–	**55**
Transfer to inventory	–	–	43	–	–	**43**
Translation differences	–	6	8	10	–	**24**
At 31 December 2010	**–**	**(468)**	**(2,223)**	**(1,365)**	**–**	**(4,056)**
Net book value						
At 31 December 2010	**1,211**	**6,118**	**39,793**	**2,492**	**4,508**	**54,122**
At 31 December 2009	**–**	**5,571**	**46,032**	**2,878**	**185**	**54,666**

On 16 September 2008, the Group acquired 100% of ordinary shares of OOO “Altavir” (the Russian Federation). This purchase did not qualify for a business combination as the acquired company does not constitute a business. The company’s assets comprised only office building located in Moscow. This building was purchased for $7,000 with the purpose to use it for administrative purposes. The carrying amount of the building was tested for impairment. Events and circumstances that led to testing of impairment are disclosed in Note 23, Operating Environment of the Group. In 2010 and 2009, no impairment losses were recognised.

Interest capitalized as part of additions to property, plant and equipment during 2010 amounted to $2,605 (2009: $4,923). Interest reimbursed by the governmental bodies and credited to additions during 2010 amounted to $103 (2009: $2,621).

10. Intangible assets other than goodwill

Intangible assets as at 31 December 2010 and 2009, in the amount of $660 and $700, respectively, represent a 20-years contract right for the rent of a business complex in Yekaterinburg (the Russian Federation). The right was acquired during the acquisition of OOO “Tatlin” in 2008 (Note 3). The remaining amortization period for the contract terms related to OOO “Tatlin” is 17 years as at 31 December 2010.

Intangible assets as at 31 December 2010 and 2009, in the amount of $753 and $879, respectively, represent a 10-years contract right up to July 2017 for the land lease, where residential complex Rozhdestvenskaya Naberezhnaya in Krasnodar (the Russian Federation) is expected to be constructed (Note 3). The remaining amortization period for the contract terms related to complex Rozhdestvenskaya Naberezhnaya in Krasnodar is 6.5 years as at 31 December 2010.

(in thousands of US Dollars)

10. Intangible assets other than goodwill (continued)

The movement in intangible assets was as follows:

	Contract terms at cost	*Contract terms accumulated amortisation*	*Net book value*
At 31 December 2008	**762**	**–**	**762**
Assets acquired in business combination (Note 3)	917	–	917
Amortization charge	–	(255)	(255)
Translation difference	155	–	155
At 31 December 2009	**1,834**	**(255)**	**1,579**
Amortization charge	–	(202)	(202)
Translation difference	(14)	50	36
At 31 December 2010	**1,820**	**(407)**	**1,413**

Goodwill was tested for impairment as of 30 June 2010 and 31 December 2009. Events and circumstances that led to recognition of impairment at 31 December 2009 are disclosed in Note 23 Operating Environment of the Group. As of 31 December 2010 the Group did not identify any indicators that could lead to impairment of goodwill.

11. Investment property

Investment properties consist of the following:

	2010	*2009*
Opening balance at 1 January	**448,998**	**376,047**
Additions (acquisitions)	2,409	–
Additions (subsequent expenditure)	2,818	3,362
Transfer to/(from) inventory	293	(93,904)
Transfer from/(to) property, plant and equipment	454	(26,401)
Translation differences	(3,708)	(4,890)
Increase in fair value of investment property	76,226	194,784
Closing balance at 31 December	**527,490**	**448,998**

During the years ended 31 December 2010 and 2009, the fair value of investment property was determined based on valuation performed by an accredited independent appraiser, who holds a recognised and relevant professional qualification and who has had recent experience in the locations and category of the investment property being valued.

The fair value of investment property was determined using the income approach and/or the sales comparison approach. The income approach is based on the assumption that the value of the property is conditional on the future benefits that the property will bring the owner within a certain period of time, and the risks associated with receiving the benefits. The sales comparison approach is based on comparative analysis of actual sales and/or asking prices for comparable properties.

In the beginning of 2009, the Group formalized technical parameters of the Project and obtained construction permit for the first stage of the Project and started the development and construction. The Group set out two blocks from investment property and commenced the development of residential properties with a view to sell them in the ordinary course of business. Therefore, the Group transferred this property from investment property to inventories. The residential property in the amount of $89,414 was transferred from Investment property to inventories at fair value as at the beginning of 2009 becoming the properties' deemed cost for subsequent accounting.

Interest capitalized as part of subsequent expenditure to investment properties amounted to $2,571 and $2,009 for the years ended 31 December 2010 and 2009, respectively.

In 2010, the Group had income from rent of investment property of $1,028 (2009: $923) and direct operating expenses arising from investment property that generated rental income of $411 (2009: $652).

(in thousands of US Dollars)

12. VAT recoverable

Taxes receivable include input value added tax (“VAT”) and prepaid income tax. VAT represents amounts payable or paid to suppliers that are recoverable from the tax authorities via offset against VAT payable to the tax authorities for the Group’s revenue or direct cash receipts from the tax authorities. This VAT relates to investment property, general and administrative and other expenses, while VAT related to residential property is capitalized. The management of the Group periodically reviews the recoverability of the balance of input value added tax and believes that VAT recoverable balance of $24,156 as at 31 December 2010 (2009: $15,739) is fully recoverable during 12 months following the respective balance sheet date. VAT in the amount of $ 233 as of 31 December 2010 (2009: $226) was classified as non-current, as it is estimated to be recovered after 12 months following the respective balance sheet date.

At 31 December 2010 and 2009, VAT recoverable balance was denominated in rubles.

13. Loans receivable

Short-term and long-term loans receivable were as follows as of:

	31 December 2010	*31 December 2009*
Long-term loans receivable		
Loans receivable from third parties	486	490
Loans receivable from related parties (Note 22)	–	2,249
Total long-term loans receivable	**486**	**2,739**
Short-term loans receivable		
Loans receivable from third parties	333	347
Loans receivable from related parties (Note 22)	2,376	34
Interest receivable from third parties	111	96
Interest receivable from related parties (Note 22)	2,227	1,330
Total short-term loans receivable	**5,047**	**1,807**

Short-term loan receivable of $2,231 and interest receivable of $2,222 as at 31 December 2010 represent amounts relating to an overdue loan given to ZAO Sverdlovskoye (the Group’s associate), which is secured by the pledge of 50% of the share capital of this company (Note 4).

The weighted average effective annual interest rates for the loans receivable were as follows as at 31 December:

	Long-term loans receivable		*Short-term loans receivable*	
	2010	*2009*	*2010*	*2009*
Ruble	11%	31%	32%	11%

Loans receivable were denominated in rubles as at 31 December 2010 and 2009.

In 2008, the Group wrote off several overdue unrecoverable loans receivable from OOO “Solnechnaya Dolina” in the amount of $667. In 2010 the Group reversed the total amount of written off loan due from OOO “Solnechnaya Dolina”. The amount was offset against accounts payable due to OOO “Solnechnaya Dolina”.

No impairment was recognised for loans receivable balances as at 31 December 2010 and 2009.

(in thousands of US Dollars)

14. Inventories

Inventories consisted of the following as of:

	31 December 2010	*31 December 2009*
Inventory properties under construction:		
- at cost	251,482	188,748
- at net realizable value, net of allowance	–	11,566
Constructed inventory properties:		
- at cost	138,862	98,631
- at net realizable value, net of allowance	11,477	–
Other inventories, at cost	479	271
	402,300	**299,216**

Including:		
- Current	333,336	267,573
- Non-current	68,964	31,643
Allowance for net realizable value	6,417	12,279

The Group accrued imputed interest on advances received from individuals for residential property. The total amount of recognized imputed interest in inventory as at 31 December 2010 and 31 December 2009 was $10,540 and $6,056, respectively.

A summary of movement in inventories is set out in the table below:

	2010	*2009*
Opening balance at 1 January	**299,216**	**233,840**
Construction costs incurred	408,967	140,433
Interest capitalized	25,850	6,948
Interests reimbursed by the governmental bodies (Note 18)	(2,245)	(2,786)
Transfer (to)/from investment property	(293)	93,904
Transfer from property plant and equipment	7,771	–
Changes in the allowance for net realizable value	5,788	(260)
Disposals (recognized in cost of sales)	(341,216)	(169,543)
Translation differences	(1,538)	(3,320)
Closing balance at 31 December	**402,300**	**299,216**

15. Trade and other receivables

Trade and other receivables consisted of the following as at:

	31 December 2010	*31 December 2009*
Trade receivables	171,815	639
Trade receivables from related parties (Note 22)	758	–
Other receivables	7,247	4,803
Other receivables from related parties (Note 22)	59	28
Allowance for irrecoverable amounts	(1,771)	(1,061)
	178,108	**4,409**

Ageing analysis is provided in Note 24.

At 31 December 2010, $631 of trade and other receivables were denominated in US Dollars, $177,478 were denominated in rubles (31 December 2009: $71 and $4,338).

As of 31 December 2010 significant portion of trade receivables related to Governmental bodies of the Russian Federation, and amounted to $167,854. These trade receivables were subsequently collected in the full amount as described in Note 26.

(in thousands of US Dollars)

16. Cash and cash equivalents

Cash and cash equivalents, mainly consisting of cash at banks, were the following as of:

	31 December 2010	***31 December 2009***
Cash	35,510	14,106
Cash equivalents	–	2,599
Restricted cash	779	785
Total	**36,289**	**17,490**

Cash equivalents include promissory notes of OAO "Metkombank", a related party of the Group. Restricted cash in the amount of 23,744 thousands of rubles relates to the cash restricted by the Russian authorities as a result of legal proceeding regarding one of the customers of the Group.

At 31 December 2010, $17,892 of cash and cash equivalents were held in OAO "Metkombank" (related party) (2009: $15,652).

Cash and cash equivalents were denominated in the following currencies:

	31 December 2010	***31 December 2009***
Rubles	36,170	16,577
US Dollars	119	913
Total	**36,289**	**17,490**

17. Equity

Total number of outstanding shares comprised:

Authorised, issued, outstanding	***Number of shares***	***Share capital***
At 31 December 2008	**1,000**	**2**
At 31 December 2009	**1,000**	**2**
Conversion of 1,000 ordinary shares with a par value of 1 EURO into 1,227 ordinary shares with a par value of 1 US Dollar each	227	–
Issue of 3,887,450 ordinary shares with a par value of 1 US Dollar each (Note 1)	3,887,450	3,886
At 31 December 2010	**3,888,677**	**3,888**

On 29 June 2010, the Company converted its 1,000 EURO share capital into 1,227 shares denominated in US Dollars with par value of 1. The Company then issued 3,887,450 additional ordinary shares with a par value of 1 at a premium of $99 per share to the existing shareholder, Renova Stroy Holding Limited, in exchange for the contribution of 100% of the effective ownership interest in 17 subsidiaries (Note 1).

No dividends were declared during the years ended 31 December 2010 and 31 December 2009.

(in thousands of US Dollars)

18. Loans and borrowings

Short-term and long-term loans and borrowings were as follows as of:

	Weighted average effective interest rate %	*31 December 2010*	*31 December 2009*
Current			
Related parties (Note 22)	7.17%	250,051	163,452
Third parties	14.37%	258,057	57,733
Total current borrowings		**508,108**	**221,185**
Non-current			
Related parties (Note 22)	8.97%	99,183	172,221
Third parties	12.76%	79,364	9,301
Total non-current borrowings		**178,547**	**181,522**
Total borrowings		**686,655**	**402,707**

At 31 December 2010, $60,650 of loans and borrowings were denominated in US Dollars (at 31 December 2009 $93,948). Other loans and borrowings were denominated in Russian rubles.

All borrowings bear fixed interest rate as at 31 December 2010 and 2009.

Loans from Savings Bank of the Russian Federation

In 2009, the Group entered into master credit facilities from Savings Bank of the Russian Federation for the total amount of $341,803 (at the exchange rate as of 31 December 2010). The facilities mature in 2010-2012 and throughout 2010 bore interest in the range of 10.28%-17% . At 31 December 2010, the Group received drawings from Savings Bank of the Russian Federation under these facilities for the total amount of $333,284 (at the exchange rate as of 31 December 2010).

In 2010 the Group entered into a number of credit facility agreements with Savings Bank of the Russian Federation for the total amount of $68,557 (at the exchange rate as of 31 December 2010). The facilities mature in 2011-2016 and throughout 2010 bore interest in the range of 10.27%-14.34% . At 31 December 2010, the Group received drawings from Savings Bank of the Russian Federation under these facilities for the total amount of $41,793. As of 31 December 2010 the Group has unutilised borrowing facilities for these loans in the amount of $26,240.

These facilities were used to finance the operating activities of the Group.

Interest on loans under the credit facility agreements with Savings Bank was compensated by the government. Total amount of interest received from governmental bodies during the 2010 amounted to $3,695 (2009: $5,407).

Loans from Credit Bank Otkrytie

In 2010 the Group entered into credit facility agreement with Commercial Bank Otkrytie for the total amount of $90,239 (at the exchange rate as of 31 December 2010). The facility matures in December 2011 and throughout 2010 bore interest of 12.5%-16.5% . At 31 December 2010, the Group received drawings from Commercial Bank Otkrytie under this facility for the total amount of $88,868. This facility was used to finance the operating activities of the Group.

Interest rates under the loans from entities under common control

As long-term loans from entities under common control bear interest below market rates, at origination, the difference between the loan amount and its fair value is treated as an equity contribution to the Group, which represents an investment by the parent in the Group. Capital contribution related to loans originated before 1 January 2009 amounts to $44,398, related to the loans originated in 2009 amounts to $7,527, for the loans originated in the 2010 amounts to $10,671.

Compliance with covenants

Some of the loan agreements with Savings Bank of the Russian Federation, concluded in 2008-2010, provide for certain covenants in respect of several Group's subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness. The Group was in compliance with all covenants as at 31 December 2010 and 31 December 2009.

(in thousands of US Dollars)

18. Loans and borrowings (continued)

Pledged assets

At 31 December 2010, the Group had inventory with a carrying value of $141,834 (2009: $26,051) and investment property with a carrying value of $212,890 at 31 December 2010 (2009 : $318,959), pledged as collateral under the loan agreements. In addition, inventory properties in the amount o $5,636 recognised as sold in 2010 were pledged as collateral under the loan agreements as of 31 December 2010.

At 31 December 2010, the Group had property, plant and equipment with a carrying value of $5,359 pledged as collateral under the loan agreement with Commercial Bank Otkrytie.

At 31 December 2010, 100% shares of ElitComplex were pledged as collateral under Commercial Bank Otkrytie loan. This subsidiary represents 4% of the consolidated assets as at 31 December 2010 and 9% of consolidated revenues of the Group for the year ended 31 December 2010. At 31 December 2010 the net assets (including intra-group balances) of ElitComplex were $6,005.

The Group pledged under credit facility agreement with Commercial Bank Otkrytie its rights for 429 apartments, related to agreements concluded by ElitComplex with Governmental bodies of the Russian Federation, and all proceeds from these agreements in the amount of $41,045 (at the exchange rate as of 31 December 2010), $19,256 of which were unsettled as of 31 December 2010.

At 31 December 2010, 100% shares of RSG-A, Region Stroy Invest, and PSP-Express were pledged as collateral under Savings Bank of the Russian Federation loans (100% shares of RSG-A at 31 December 2009). These subsidiaries represent 76% and 70% of the consolidated assets as at 31 December 2010 and 31 December 2009, respectively, and 62% and 30% of consolidated revenues of the Group for the years ended 31 December 2010 and 31 December 2009, respectively. At 31 December 2010 and 31 December 2009 the net assets (including intra-group balances) were $449,529 and $339,400, respectively.

At 25 December 2009, the Group signed an agreement with Savings Bank of the Russian Federation for the total amount of $267,937 (at the exchange rate as at 31 December 2010). The contractual rights with the major subcontractors of the Project with the contractual amount of $415,852, rights for 2,383 apartments, related to agreements concluded by RSG-A with Governmental bodies of the Russian Federation, and all proceeds from these agreements in the amount of $189,478 (at the exchange rate as of 31 December 2010) were pledged under this borrowing facility. As of 31 December 2010 the Group received drawings in the total amount of $263,667.

The Group pledged under credit facility agreement with Savings Bank of the Russian Federation its rights for 351 apartments, related to agreements concluded by Region Stroy Invest and PSP-Express with Governmental bodies of the Russian Federation, and all proceeds from these agreements in the amount of $28,733 (at the exchange rate as of 31 December 2010), $6,091 of which were unsettled as of 31 December 2010.

Discount amortisation

Amortization of the discount is charged to finance expenses and amounted to $9,217 and $9,586 for the years ended 31 December 2010 and 31 December 2009, respectively.

Unutilised borrowing facilities

The Group had unutilised borrowing facilities in the amount of $36,934 and $ 273,127 as of 31 December 2010 and 31 December 2009, respectively.

19. Trade and other payables

Trade and other payables consisted of the following as of:

	31 December 2010	***31 December 2009***
Trade payables to third parties	59,538	32,713
Other payables to related parties (Note 22)	155	92
	59,693	**32,805**

Trade and other payables denominated in rubles amounted to $50,697 as at 31 December 2010 (31 December 2009: $23,694), trade and other payables denominated in US Dollars amounted to $8,996 as at 31 December 2010 (31 December 2009: $9,111).

Maturity profile of the accounts payable is shown in Note 24.

(in thousands of US Dollars)

20. Advances from customers

At 31 December 2010 and 2009, advances received in the amount of $53,772 and $118,604, respectively, were mainly represented by advance payments received from individuals for construction of residential property.

Advances received at 31 December 2010 are expected to be settled in 2011.

The Group recognized imputed interest at the market rate of 14-20%% in 2009 and 12-15.5%% in 2010. The related interest was capitalized in inventory (Note 14).

At 31 December 2010 and 31 December 2009, advances received were denominated in Russian rubles.

21. Provisions

Provisions consisted of the following as at:

	Provision for tax liabilities	*Bonuses*	*Unused vacation*	*Total*
At 31 December 2008	**275**	**1,384**	**1,066**	**2,725**
Arising during the year	479	6,899	120	**7,498**
Utilised	–	–	(805)	**(805)**
Translation differences	37	405	91	**533**
At 31 December 2009	**791**	**8,688**	**472**	**9,951**
Arising during the year	–	4,937	108	**5,045**
Utilised	–	(5,163)	(48)	**(5,211)**
Unused amounts reversed	–	(3,458)	–	**(3,458)**
Translation differences	5	(84)	(175)	**(254)**
At 31 December 2010	**796**	**4,920**	**357**	**6,073**

22. Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding on 31 December 2010 and 31 December 2009 are detailed below.

31 December 2010	*Loans receivable*	*Trade and other receivables*	*Cash and cash equivalents*	*Interest-bearing loans and borrowings*	*Trade and other payables*
Shareholder of the parent company	–	28	–	4,079	50
Associates	4,603	758	–	–	44
Entities under common control	–	31	17,892	345,155	61
Total	**4,603**	**817**	**17,892**	**349,234**	**155**

(in thousands of US Dollars)

22. Balances and transactions with related parties (continued)

31 December 2009	*Loans Receivable*	*Trade and other receivables*	*Cash and cash equivalents*	*Interest-bearing loans and borrowings*	*Trade and other payables*
Shareholder of the parent company	–	1	–	3,739	7
Associates	3,613	–	–	–	–
Entities under common control	–	27	15,652	331,934	85
Total	**3,613**	**28**	**15,652**	**335,673**	**92**

Year ended 31 December 2010	*Revenue*	*Finance income*	*Purchases*	*Finance expense*
Shareholder of the parent company	–	–	–	107
Associates	950	912	231	–
Entities under common control	–	638	3,988	22,878
Total	**950**	**1,550**	**4,219**	**22,985**

Year ended 31 December 2009	*Revenue*	*Finance Income*	*Purchases*	*Finance expense*
Shareholder of the parent company	–	–	–	105
Associates	–	941	–	–
Entities under common control	3,587	900	1,323	12,824
Total	**3,587**	**1,841**	**1,323**	**12,929**

The balances with related parties as at 31 December 2010 and 31 December 2009 are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Compensation to key management personnel

Key management personnel include top managers of the Group and major subsidiaries.

Total compensation to key management personnel were included in general and administrative expenses in the consolidated statement of operations and consisted of short-term employee benefits:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Salary	4,951	4,280
Termination benefits	–	193
Performance bonuses	2,881	2,930
Other compensations	8	739
Social security taxes	99	2,117
	7,939	**10,259**

23. Contingencies, commitments and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by 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. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

(in thousands of US Dollars)

23. Contingencies, commitments and operating risks (continued)

Taxation

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods in the Russian Federation remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management as of 31 December 2010 as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $6,248 (31 December 2009: $2,255).

Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering vehicles and voluntary medical insurance of employees of the Group's entities.

Contractual commitments

The Group has signed a number of contracts for the construction works as of 31 December 2010. The Group had firm contractual commitments for the construction works for an approximate amount of $192,377 as at 31 December 2010. However, many of contracts provide for payments stage wise basing on specifically agreed cost of stages. It is not practicable to measure the amount of these purchase commitments, though they constitute significant amount and concern most of the construction and investment projects of the Group.

Legal proceedings

The Group is involved in legal proceedings, none of which will individually or in aggregate, have a significant effect on the Group's operations or financial position. There are also several unasserted claims related to individuals and legal entities who prepaid for residential and commercial property to the previous owners of the property under construction. As the claims are either at the early stage or counterclaimed, the Group used their best estimate in regard of potential losses under this litigations and concluded that their amount is not significant for disclosure.

Commitments to sell to governmental bodies

In 2010, the Group signed several agreements with governmental bodies for sale of residential apartments for the total amount of $243,033. The Group committed to construct the apartments under these sales agreements by the end of 2010 beginning of 2011. As of December 2010 the total amount of unfulfilled commitments under these contracts was $67,174.

The Group has also commitments to sell of residential apartments under agreements with governmental bodies concluded in December 2009 for the total amount of $6,650. The Group committed to construct the apartments under these sales agreements by the end of October 2010. As of 31 December 2010 the abovementioned commitments were fulfilled.

24. Financial risk management objectives and policies

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and loans receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in rubles, in reputable Russian banks – Savings Bank of the Russian Federation and OAO "Metkombank" (a related party). Management periodically reviews the creditworthiness of the banks in which it deposits cash.

(in thousands of US Dollars)

24. Financial risk management objectives and policies (continued)

Credit risk (continued)

As of 31 December 2010 significant portion of trade receivables related to Governmental bodies of the Russian Federation, and amounted to $167,854. This debt was subsequently collected in the full amount as described in Note 26. There are no other significant concentrations of credit risk within accounts receivable balances of the Group. The Group requires prepayments from the major part of its customers, except for Governmental bodies of the Russian Federation. The Group defines counterparties as having similar characteristics if they are related entities.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, without taking into account of any collateral held or other credit enhancements, which is disclosed below.

	31 December 2010	*31 December 2009*
Non-current assets		
Loans receivable	486	2,739
Total non-current assets	**486**	**2,739**
Current assets		
Restricted cash at banks	779	785
Loans receivable	5,047	1,807
Trade and other receivables	178,108	4,409
Total current assets	**183,934**	**7,001**

The ageing analysis of trade and other receivables and loans receivable is presented in the table below as of 31 December 2010 and 31 December 2009:

	2010 Gross amount	*2010 Impairment*	*2009 Gross amount*	*2009 Impairment*
Not past due:	179,126	–	5,093	–
Past due total:	5,924	(1,771)	4,923	(1,061)
less than 6 months	–		338	(278)
6 months - 1 year	773	(773)	388	(388)
over 1 year	5,151	(998)	4,197	(395)
Total	**185,050**	**(1,771)**	**10,016**	**(1,061)**

Liquidity risk

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

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days. In addition, the Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

(in thousands of US Dollars)

24. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

31 December 2010

	Less than 12 months	*1-2 years*	*2-5 years*	*Total*
Non-interest bearing debt				
Trade and other payables	65,727	–	–	65,727
Fixed-rate debt				
Other long-term liabilities	–	5	–	5
Loans and borrowings	548,283	177,982	34,976	761,241
Including: principal	*474,159*	*150,570*	*31,341*	*656,070*
interest	*74,124*	*27,412*	*3,635*	*105,171*
Total debt	**614,010**	**177,987**	**34,976**	**826,973**

31 December 2009

	Less than 12 month	*1-2 years*	*2-5 years*	*Total*
Non-interest bearing debt				
Trade and other payables	41,689	–	–	41,689
Fixed-rate debt				
Other long-term liabilities	–	42	–	42
Loans and borrowings	198,035	110,125	115,292	423,452
Including: principal	*175,841*	*106,159*	*109,965*	*391,965*
interest	*22,194*	*3,966*	*5,327*	*31,487*
Total debt	**239,724**	**110,167**	**115,292**	**465,183**

Market risk

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

The Group monitors real estate prices and adjust its business strategy accordingly. The Group mitigates risk of increasing of prices for construction materials by entering into long-term contracts with suppliers, in several of them prices per square meter is fixed.

Interest rate risk

The Group borrows on a fixed rate basis from related parties and third party banks. Due to the ongoing world liquidity crisis the Group has a limited ability to negotiate interest rates.

The Group does not have any financial assets or liabilities with variable interest rate. All the borrowings of the Group bear fixed interest rate.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

Currency risk

The Group is exposed to currency risk on loans receivable, payable from the related parties and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are rubles and US Dollars.

(in thousands of US Dollars)

24. Financial risk management objectives and policies (continued)

Market risk (continued)

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as the Group has very limited volume of transactions in currencies other than ruble. The carrying amounts of financial instruments, such as cash, short-term accounts receivable and payable, advances from customers and prepayments approximate their fair value.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	31 December 2010	*31 December 2009*
USD/RUB	181,064	119,228

As at 31 December 2010 and 2009, the concentration of currency risk of the Group related to ruble-denominated loans payable to entities under common control was $181,566 (or 100%) and $147,057 (or 88%), respectively, of total foreign-currency denominated loans.

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating reasonably possible changes for 2007 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting periods. In 2009 and 2010, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. As at 31 December 2010, the Group used the same reasonably possible changes as for 2009.

	31 December 2010		*31 December 2009*	
	Change in exchange rate	*Effect on PBT*	*Change in exchange rate*	*Effect on PBT*
	%	*US*	*%*	*US*
USD/RUB	(8.90)	(16,115)	(14.80)	(17,646)
	8.90	16,115	14.80	17,646

Fair value of financial instruments

The following table shows financial instruments which carrying amounts differ from fair values as at:

	31 December 2010		*31 December 2009*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Long-term fixed-rate loans	178,547	151,568	181,522	154,756
	178,547	**151,568**	**181,522**	**154,756**

The fair value of long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates. The discount rates used for valuation of financial instruments were as follows:

Currency in which financial instruments are denominated	*31 December 2010*	*31 December 2009*
USD	9.0%	11.0%
RUB	15.0%	13.0%

(in thousands of US Dollars)

24. Financial risk management objectives and policies (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize the return to shareholders. Capital includes equity attributable to the equity holders of the parent entity. There were no changes in the objectives, policies and processes during 2010.

The Board of directors reviews the Group's performance and establishes key performance indicators. One of the subsidiaries of the Group (RSG-Akademicheskoe) is subject to externally imposed capital requirements (loans covenants) which are used for capital monitoring. To mitigate this the share capital of this entity was increased by RUR 350 million ($11,484 at the exchange rate as at 31 December 2010). The management of the Group believes that the Group is in the compliance with this covenant as at 31 December 2010 and will be in compliance with this covenant for the nearest twelve months after 1 January 2011.

25. Segment information

The Group adopted IFRS 8 *Operating Segments* starting from 1 January 2009.

For management purposes, the Group is organised into business units based on construction projects, and has five reportable operating segments in 2010:

- the project "Akademic City" (investment and residential property)
- the project "MegaStroy" (residential and non-residential property)
- the project "Aprelevka" (residential and non-residential property)
- the project "Schelkovo" (residential and non-residential property)
- the project "Yaroslavl" (residential and non-residential property)

and three reportable operating segments in 2009:

- the project "Akademic City" (investment and residential property)
- the project "MegaStroy" (residential and non-residential property)
- the project "Aprelevka" (residential and non-residential property)

Other projects include small construction or operating rent projects due to its size or in start-up activity and are presented as "other segments".

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 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 an accrual basis, and management accounts are prepared on a 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 revenue is calculated based on management accounts that differ from the IFRS consolidated financial statements for the following reasons:

- IFRS consolidated financial statements are prepared on an accrual basis, management accounts are prepared on a cash basis;
- Management accounts include intra-group operations that are eliminated in IFRS consolidated financial statements.

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, intra-group counterparties and expenses relating to transactions with other segments. Segment expense includes also net cash flows results from investment and financing activity of the Group.

(in thousands of US Dollars)

25. Segment information (continued)

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 and presented in these consolidated financial statements in accordance with the previous accounting policies in respect of segment information.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets do not include income tax assets. As segment's segment result does not include interest or dividend income, its segment assets do not include the related receivables, loans, investments, or other income-producing assets.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities do not include income tax liabilities. As segment result does not include interest expense, segment liabilities do not include the related interest-bearing liabilities.

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 net result per the consolidated financial statements prepared under IFRS:

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 net result per the consolidated financial statements prepared under IFRS:

Year ended 31 December 2010

	Akademic City	*MegaStory*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Other projects*	*Total*
Segment revenue	**127,812**	**18,655**	**22,705**	**21,866**	**14,465**	**124,551**	**330,054**
Accrual vs. cash basis	135,104	7,930	24,504	19,325	1,398	52,985	241,246
Elimination of intra-group revenue	(37,282)	(149)	–	–	(11)	(77,382)	(114,824)
Revenue per IFRS consolidated financial statements	**225,634**	**26,436**	**47,209**	**41,191**	**15,852**	**100,154**	**456,476**

Year ended 31 December 2009

	Akademic City	*MegaStory*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Other projects*	*Total*
Segment revenue	**61,066**	**17,751**	**11,166**	**–**	**4,054**	**62,800**	**156,837**
Accrual vs. cash basis	(1,748)	19,595	59,717	–	6,053	4,348	87,965
Elimination of intra-group revenue	(12)	(4)	(516)	–	(22)	(45,297)	(45,851)
Revenue per IFRS consolidated financial statements	**59,306**	**37,342**	**70,367**	**–**	**10,084**	**21,852**	**198,951**

Year ended 31 December 2010

	Akademic City	*MegaStory*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Other projects*	*Total*
Segment result	**7,403**	**(2,055)**	**(775)**	**259**	**139**	**13,828**	**18,799**
Accrual vs. cash basis	75,181	4,226	5,684	8,217	(4,300)	(19,140)	69,868
Net profit / (loss) per IFRS consolidated financial statements	**82,584**	**2,171**	**4,909**	**8,476**	**(4,161)**	**(5,312)**	**88,667**

(in thousands of US Dollars)

25. Segment information (continued)

Year ended 31 December 2009

	Akademic City	*MegaStory*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Other projects*	*Total*
Segment result	**(2,159)**	**334**	**(1,248)**	**15**	**1,595**	**7,986**	**6,523**
Accrual vs. cash basis	166,899	6,995	13,853	(33)	(2,814)	(78,597)	106,303
Net profit / (loss) per IFRS consolidated financial statements	**164,740**	**7,329**	**12,605**	**(18)**	**(1,219)**	**(70,611)**	**112,826**

In 2010, 34% of the Group's consolidated revenues were received upon the fulfillment of the Contractual obligations with the Ministry of Defense of the Russian Federation (2009: 30%).

Intersegment transactions may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

26. Subsequent events

Subordination of loans received from related parties

In May 2011, and in conjunction with the contemplated bond offerings of the Group, the management of the ultimate shareholder approved the decision to subordinate to such bond debt the principal amounts of the loans due from the Group to the entities under common control of the ultimate shareholder in the total amount of $319,592, as of 31 March 2011 (calculated at the exchange rate of $ 28 US dollars per ruble). The interest on the subordinated loans is not subject to the subordination. The subordination term would match the expected maturity of the bonds (from 3 to 5 years). The repayment of loans principal amounts may not be demanded for repayment nor repaid before maturity date. The book value of the principal amount of the loans subject to the subordination as of 31 December 2010 amounted to $208,770 and $70,347 for current and non-current portion, respectively. The Group is in the process of signing 71 respective subordination agreements.

Loans from Savings bank of the Russian Federation and other borrowings

In January-April 2011, the Group partially repaid its obligations under a number of credit facilities in the amount of $219,184 (including interest).

In January-April 2011, the Group received debt drawings of $24,221 from Savings Bank of the Russian Federation under existing credit facility agreements. Additionally, the Group received debt drawings of $ 20,563 from other banks.

S*ubsequent receipt of cash under the contracts with Governmental bodies*

Subsequent to 31 December 2010, the Group collected trade receivables related to Governmental bodies of the Russian Federation (refer to Note 15) in the total amount of $167,854 (at the exchange rate as of 31 December 2010).

S*ubsequent sales to Governmental bodies*

In January-April 2011, the Group concluded sales of residential apartments to Governmental bodies in the total amount of $36,014 and received payments under these contracts in the full amount of $36,014.

(in thousands of US Dollars)

26. Subsequent events (continued)

S*ubsequent sale of ordinary shares in RSG-Akademicheskoye Limited*

On March 31, 2011, the Group entered into the agreement to sell 3% of its ordinary shares in RSG-Akademicheskoye Limited, the holding company for the "Academic City" project (disclosed in the Note 25). RSG-Akademicheskoye Limited is the parent company of OOO Renova StroyGroup-Akademicheskoe, which represents approximately 71% of the consolidated assets of the Group as at 31 December 2010 and 49% of the consolidated revenues of the Group for the year ended 31 December 2010. At 31 December 2010, the book value of the net assets (including intra-group balances) of OOO Renova StroyGroup-Akademicheskoe was $431,515. The Group received payment stated in the sales agreement in the amount of $20. Additional consideration for the sales transaction is expected in the second and third quarter of 2011.

S*ubsequent pledge of assets*

In 2011 the 100% shares of OOO Seventeenth Block and the construction inventory in the amount of $3,617 were pledged as collateral under the loan from SKB-Bank.