JSC HALS-Development and subsidiaries

Interim condensed consolidated financial statements

30 June 2012

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Contents

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Report on review of interim condensed consolidated financial statements

To the shareholders of JSC HALS-Development

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC HALS-Development, formerly known as JSC Sistema-Hals, and its subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of matter

We draw attention to Note 2 in the interim condensed consolidated financial statements which indicates that as of 30 June 2012 the Group had negative net assets of RUR 20,656 million and, as of that date, the Group's current liabilities exceeded its current assets by RUR 38,198 million. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Ernst & Young LLC

31 August 2012

JSC HALS-Development and subsidiaries

Interim consolidated statement of comprehensive income

for the six-month period ended 30 June 2012

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

	Notes	2012 (unaudited)	2011 (unaudited)
Rental income	4	544	119
Other property operating expense		(105)	(52)
Net rental income		**439**	**67**
Valuation gains on completed investment property	12	251	37
Valuation gains on investment property under construction	13	1,132	318
Net valuation gains on investment property		**1,383**	**355**
Sales of inventory property	5	2,763	57
Cost of sales – inventory property	5,17	(2,147)	(35)
Gross profit on sale of inventory property		**616**	**22**
Write-down of inventory property to net realizable value	17	**(2)**	**(48)**
Revenue from room charges and other hotel services	5	194	110
Cost of hotel services		(109)	(56)
Gross profit on hotel services		**85**	**54**
Other sales	5	46	69
Cost of other sales		(3)	(9)
Gross profit on other sales		**43**	**60**
Administration expenses	6	(688)	(415)
Other operating income	7	193	304
Other operating expenses	8	(1,060)	(430)
Operating profit/(loss)		**1,009**	**(31)**
Finance income	9	183	247
Finance expenses	10	(2,169)	(1,865)
Share of (loss)/income of associates and joint ventures, net of tax	14	(9)	22
Foreign exchange gain		190	549
Loss before tax		**(796)**	**(1,078)**
Income tax (expenses)/benefit	11	(354)	3
Loss for the period		**(1,150)**	**(1,075)**
Attributable to:			
Owners of the parent		(1,239)	(1,075)
Non-controlling interest		89	–
		(1,150)	**(1,075)**
Total comprehensive loss for the period		**(1,150)**	**(1,075)**
Attributable to:			
Owners of the parent		(1,239)	(1,075)
Non-controlling interest		89	–
		(1,150)	**(1,075)**
Weighted average number of common shares outstanding		11,211,534	11,186,229
Basic and diluted loss for the period per share, RUR		(103)	(96)

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

JSC HALS-Development and subsidiaries

Interim consolidated statement of financial position

As of 30 June 2012

(Amounts in millions of Russian Rubles)

	Notes	30 June 2012 (unaudited)	31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	15	2,524	2,614
Completed investment property	12	12,908	5,572
Investment property under construction	13	23,383	20,427
Inventory property	17	–	16,609
Intangible assets	16	868	106
Loans and notes receivable	19	11	7,074
Investments in associates and joint ventures	14	2,092	3,947
VAT reimbursable		–	1,940
Other non-financial assets	21	3,212	6,111
Other financial assets	18	355	509
Deferred tax assets		1,687	1,249
		47,040	**66,158**
Current assets			
Inventory property with period of realization above the year	17	25,544	–
Inventory property with period of realization within the year	17	4,524	6,180
Trade and other receivables	18	582	619
VAT reimbursable		5,208	1,580
Cash and short-term deposits	20	3,079	2,038
Other financial assets	18	469	609
Loans and notes receivable	19	113	154
Other non-financial assets	21	2,950	372
		42,469	**11,552**
Total assets		**89,509**	**77,710**
Equity and liabilities			
Equity			
Issued share capital	22	567	567
Treasury shares	22	(1)	(1)
Additional paid-in capital		18,332	18,296
Accumulated losses		(40,882)	(39,643)
Total equity attributable to equity holders of the parent		**(21,984)**	**(20,781)**
Non-controlling interest		1,328	1,248
Total equity		**(20,656)**	**(19,533)**
Non-current liabilities			
Interest bearing loans and borrowings	23	24,533	49,912
Other non-financial liabilities	25	433	469
Deferred tax liability		4,532	4,129
		29,498	**54,510**
Current liabilities			
Interest bearing loans and borrowings	23	71,350	34,694
Trade and other payables	24	1,750	1,166
Provisions		415	144
Income tax payable		210	14
Other non-financial liabilities	25	6,942	6,715
		80,667	**42,733**
Total liabilities		**110,165**	**97,243**
Total equity and liabilities		**89,509**	**77,710**

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

JSC HALS-Development and subsidiaries

Interim consolidated statement of changes in equity

for the six-month period ended 30 June 2012

(Amounts in millions of Russian Rubles)

(unaudited)	**Issued capital**	**Treasury shares**	**Additional paid-in capital**	**Accumu-lated losses**	**Equity attributable to equity holders of the parent**	**Non-controlling interest**	**Total equity**
At 1 January 2012	**567**	**(1)**	**18,296**	**(39,643)**	**(20,781)**	**1,248**	**(19,533)**
Loss for the period	–	–	–	(1,239)	(1,239)	89	**(1,150)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(1,239)**	**(1,239)**	**89**	**(1,150)**
Disposal of non-controlling interest	–	–	36	–	36	(9)	**27**
At 30 June 2012	**567**	**(1)**	**18,332**	**(40,882)**	**(21,984)**	**1,328**	**(20,656)**

(unaudited)	**Issued capital**	**Treasury shares**	**Additional paid-in capital**	**Accumu-lated losses**	**Equity attributable to equity holders of the parent**	**Non-controlling interest**	**Total equity**
At 1 January 2011	**567**	**(1)**	**18,296**	**(36,232)**	**(17,370)**	**–**	**(17,370)**
Loss for the period	–	–	–	(1,075)	(1,075)	–	**(1,075)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(1,075)**	**(1,075)**	**–**	**(1,075)**
Acquisition of subsidiaries (Note 6)	–	–	–	–	–	1,282	**1,282**
At 30 June 2011	**567**	**(1)**	**18,296**	**(37,307)**	**(18,445)**	**1,282**	**(17,163)**

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

JSC HALS-Development and subsidiaries

Interim consolidated cash flow statement

for the six-month period ended 30 June 2012

(Amounts in millions of Russian Rubles)

	Notes	2012 (unaudited)	2011 (unaudited)
Operating activities			
Loss before tax		(796)	(1,078)
Adjustments to reconcile loss before tax to net cash flows:			
Changes in fair value of investment property	12,13	(1,383)	(355)
Share of profit in associates and joint ventures	14	9	(22)
Loss from remeasurement of investments in associates to fair value	7,8	336	64
Goodwill write off	8	12	–
Gain on bargain purchase	7	–	(65)
Depreciation and amortization	15,16	61	41
Write-down of inventory property to net realizable value	17	2	48
Impairment of property, plant and equipment	8,15	62	–
Finance income	9	(183)	(247)
Finance expenses	10	2,169	1,865
Changes in legal provision	7	–	(56)
Gain on plant reallocation	7	(63)	–
Recover of receivables written off in prior period	7	(18)	(129)
Changes in tax provision	7	–	(20)
Loss from sale of investment property	8	131	–
Receivables write off	8	157	241
Foreign currency gain		(190)	(549)
		306	**(262)**
Working capital adjustments:			
Change in trade and other receivables, VAT reimbursable and other non-financial assets	2	2,020	(3,264)
Change in inventory property		(1,635)	(1,214)
Change in trade, other payables and non-financial liabilities		(1,659)	366
Cash flow used in operating activities		**(968)**	**(4,374)**
Income tax (paid)/reimbursed		(9)	125
Net cash flow used in operating activities		**(977)**	**(4,249)**
Investing activities			
Acquisition of businesses, net of cash acquired	3	(1,935)	(2,982)
Disposal of non-controlling interest	3	31	–
Capital expenditure on completed investment property		–	(60)
Expenditure on investment property and property, plant and equipment under construction		–	(30)
Advances paid for construction of investment property and property, plant and equipment	2	(3,571)	(1,731)
Proceeds from disposal of investment property		443	–
Loans issued		(251)	(504)
Interest received		52	4
Repayment of loans issued		2	–
Net cash flow used in investing activities		**(5,229)**	**(5,303)**
Financing activities			
Proceeds from borrowings		9,026	14,282
Redemption of borrowings		(1,615)	(3,194)
Interest paid		(149)	(344)
Net cash flow from financing activities		**7,262**	**10,744**
Effects of foreign currency translation on cash and cash equivalents		(15)	(3)
Net increase in cash and cash equivalents		**1,041**	**1,189**
Cash and cash equivalents at 1 January	20	2,038	693
Cash and cash equivalents at 30 June	20	**3,079**	**1,882**

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

1. Corporate information

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

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

The Group's operations are conducted in the Russian Federation (hereinafter referred to as "the RF") and the Commonwealth of Independent States ("the CIS"), primarily in Moscow, the Moscow Region, the Nizhniy Novgorod region, Sochi, Kiev and Saint-Petersburg. The majority of the Group entities are incorporated in the RF. The registered office is located at 35/4, B.Tatarskaya st., Moscow, Russia.

As at 30 June 2012 and 31 December 2011 OJSC VTB Bank ("VTB") owned 51.24% of the share capital of the Company. The ultimate controlling party of the Group is the state of Russian Federation, acting through the Federal Property Agency.

These interim condensed consolidated financial statements at 30 June 2012 and for the six-month period then ended were authorised for issue by the President of the Company on 31 August 2012.

2. Basis of preparation and changes to the Group's accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2011.

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

Going concern

As at 30 June 2012, the Group's negative net assets amounted to RUR 20,656 million (31 December 2011: RUR 19,533 million) and as of that date the Group current liabilities exceeded its current assets by RUR 38,198 million (31 December 2011: RUR 31,181 million). Group incurred a net loss of RUR 1,150 million for the six-month period ended 30 June 2012 (2011: RUR 1,075 million).

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

2. Basis of preparation and changes to the Group's accounting policies (continued)

Going concern (continued)

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

- management assessed the Group's portfolio of projects and has prioritized those that it believes to be more strategic, and suspended other activities in order to reduce the Group's cash requirements;
- during 2012 the Group continued to restructure its debt portfolio. At the date of issuance of these interim condensed consolidated financial statements, all loans due to VTB, the Group's controlling shareholder, that were maturing in 2012 were prolonged until 2017-2020 (see Note 31). VTB's loans now account for approximately 96% of the Group's total loans and notes payable (see Note 23). The Group will continue to restructure its debt portfolio going forward.

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

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

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

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

IAS 12 – Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 requires that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

2. Basis of preparation and changes to the Group's accounting policies (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

The Group has investment properties at fair value. The jurisdictions in which the Group operates do not have a different tax charge for sale or consumption of the assets. While the amendment is applicable, it has no impact on the financial statement of the Group.

The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 7 – Disclosures – Transfers of Financial Assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Normal operating cycle reconsideration

The Group continued to develop its projects in real estate held for sale segment and in early 2012 revisited the determination of operating cycle due significant progress in development of these projects and commencement of sale at some of them. The Group clearly indentified that on a project by project basis the normal operating cycle varies from 3 to 13 years depending on the complexity and types of property developed. As of 30 June 2012 assets and liabilities attributable to real estate held for sale segment are classified as current if they are expected to be settled or realized within those normal operating cycles determined on a project by project basis. All other assets and liabilities are classified as non-current. This change was applied prospectively as change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Group's normal operating cycle in other segments remain to be twelve months.

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

2. Basis of preparation and changes to the Group's accounting policies (continued)

Changes in segment information presentation

In the second half of 2011 management decided to change the presentation of the operating segments from development projects basis to class of property basis as management monitors the operating results of its business units based on the different classes of property separately for the purpose of making decisions about resource allocation and performance assessment. As a result the presentation of segment information for the six-month period ended 30 June 2011 was changed accordingly.

Restatement of cash flow statement

In the course of the preparation of the interim condensed consolidated financial statement for the six-month period ended 30 June 2012 the Group identified misclassification of cash flow from operating and investing activities, which was reclassified by restating the comparative information for the six-month period ended 30 June 2011.

	As previously reported	Reclassifications	As restated
Change in trade and other receivables, VAT reimbursable and other non-financial assets	(4,995)	1,731	(3,264)
Cash flow used in operating activity	**(6,105)**	**1,731**	**(4,374)**
Net cash flow used in operating activity	**(5,980)**	**1,731**	**(4,249)**
Advances paid for construction of investment property and property, plant and equipment	–	(1,731)	(1,731)
Net cash flow used in investing activity	**(3,572)**	**(1,731)**	**(5,303)**

3. Acquisitions

Acquisition of SistemApsys S.A.R.L.

On 30 January 2012 the Group acquired 50% of the shares of SistemApsys S.A.R.L. for consideration of USD 41.7 million (RUR 1,306 million), which owns the shopping and entertainment complex "Leto" in S.Peterburg, bringing its ownership to 100%.

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

3. Acquisitions (continued)

Acquisition of SistemApsys S.A.R.L. (continued)

SistemApsys S.A.R.L.'s fair value of net assets at the date of purchase was as follows:

	Fair value recognised on acquisition
Property, plant and equipment	3
Completed investment property	6,621
Trade and other receivables	97
VAT reimbursable	858
Cash and short-term deposits	349
Other non-financial assets	69
Deferred tax assets	289
	8,286
Interest bearing loans and borrowings	(134)
Trade and other payables	(48)
Provisions	(217)
Other non-financial liabilities	(250)
	(649)
Total identifiable net assets at fair value	**7,637**
Fair value of previously acquired interest (50%)	538
Total consideration	7,868
Goodwill arising on acquisition (Note 16)	**769**
Total consideration consists of:	**7,868**
- preexisting interest bearing loans issued	6,956
- preexisting other non-financial liabilities	(394)
- cash consideration paid	1,306
Cash flow on acquisition	
Cash paid for the acquisition	(1,306)
Cash acquired with the subsidiary	349
Net cash outflow on acquisition	**(957)**

At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 428 million (Note 8).

From the date of acquisition, SistemApsys S.A.R.L. has contributed RUR 311 million and RUR 114 million to the Group’s revenue and profit before tax for the six-month period ended 30 June 2012, respectively. If the combination had taken place at the beginning of the period, the Group’s revenue and loss before tax would have been increased by RUR 48 million and RUR 16 million, respectively.

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

3. Acquisitions (continued)

Acquisition of JSC StroyPromOb'ekt

On 19 April 2012 the Group acquired 100% of the shares of JSC StroyPromOb'ekt for the amount of RUR 980 million, which owns 50% of the shares of JSC Hals-Technopark, a former associate of the Group. After the acquisition the Group owns 100% of the shares of JSC Hals-Technopark.

The fair value of the identifiable assets and liabilities of JSC StroyPromOb'ekt and JSC Hals-Technopark as at the date of acquisition were:

	Fair value recognised on acquisition
Inventory property	3,887
VAT reimbursable	39
Cash and short-term deposits	2
Other non-financial assets	45
	3,973
Interest bearing loans and borrowings	(273)
Trade and other payables	(16)
Deferred tax liability	(168)
Other non-financial liabilities	(1,659)
	(2,116)
Total identifiable net assets at fair value	**1,857**
Fair value of previously acquired interest in JSC Hals-Technopark (50%)	973
Total consideration	896
Goodwill arising on acquisition	**12**
Total consideration consists of:	**896**
- preexisting interest bearing loans issued	289
- preexisting accounts payable	(373)
- cash consideration paid	980
Cash paid for the acquisition	(980)
Cash acquired with the subsidiary	2
Net cash outflow on acquisition	**(978)**

At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised income in the amount of RUR 92 million (Note 7).

Goodwill was written off in full amount (Note 8) as the Group's management believes it will not be recoverable.

From the date of acquisition, JCS StroyPromOb'ekt has contributed RUR 2 million and RUR nil million to the Group's revenue and loss before tax for the six–month period ended 30 June 2012, respectively. If the combination had taken place at the beginning of the period, the Group's revenue and loss before tax would have been increased by RUR 3 million and RUR nil million, respectively.

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

3. Acquisitions (continued)

Acquisition of Citer Invest B.V.

On 20 May 2011 the Group acquired 50% + 1 shares of Citer Invest B.V. for the amount of USD 45.2 million (RUR 1,262 million) and cash contribution to the share capital in the amount of USD 5,050 thousand (RUR 156 million) for the development of new Project "Multi-function complex with transport terminal as part of Moscow International Business Center "Moscow-City".

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

	Fair value recognised on acquisition
Property, plant and equipment	10
Investment property under construction	5,038
Trade and other receivables	1
Cash and short-term deposits	36
Other current financial assets	311
Other current non-financial assets	198
	5,594
Interest bearing loans and borrowings	(1,789)
Deferred tax liability	(660)
Trade and other payables	(348)
Other current non-financial liabilities	(168)
	(2,965)
Total identifiable net assets at fair value	**2,629**
Non-controlling interest measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets	1,303
Total consideration	1,418
Goodwill arising on acquisition (Note 16)	**92**
Total consideration consists of:	**1,418**
- cash consideration paid	1,262
- capital contribution	156
Cash paid for the acquisition	(1,262)
Cash acquired with the subsidiary	36
Net cash outflow on acquisition	**(1,226)**

As of 30 June 2011 capital contribution to be contributed by cash remained unpaid. The goodwill of RUR 92 million comprises the fair value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes. In November-December 2011 capital contribution was paid and operation for the acquisition of Citer Invest B.V. has been fully completed.

From the date of acquisition, Citer Invest B.V. has contributed RUR nil million and RUR 17 million to the Group's revenue and loss before tax for the six–month period ended 30 June 2011, respectively. If the combination had taken place at the beginning of the period, the Group's revenue and loss before tax would have been increased by RUR nil million and RUR 44 million, respectively.

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

3. Acquisitions (continued)

Acquisition of GOK “Pekin”

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

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

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

From the date of acquisition, GOK “Pekin” has contributed RUR 120 million and RUR 14 million to the Group’s revenue and loss before tax for the six-month period ended 30 June 2011, respectively. If the combination had taken place at the beginning of the period, the Group’s revenue and loss before tax would have been increased by RUR 48 million and RUR 2 million, respectively.

Acquisition of Gandiva Enterprises Limited

On 10 June 2011 the Group acquired 50% of the shares of Gandiva Enterprises Limited for cash consideration of RUR 66 million. At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 64 million (Note 11).

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

3. Acquisitions (continued)

Acquisition of Gandiva Enterprises Limited (continued)

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

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

Gain on bargain purchase in the amount of RUR 65 million has been recognised in other operating income on the acquisition date.

From the date of acquisition, Gandiva Enterprises Limited has contributed RUR nil million and RUR nil million to the Group's revenue and loss before tax for the six-month period ended 30 June 2011, respectively. If the combination had taken place at the beginning of the period, the Group's revenue and loss before tax would have been increased by RUR nil million and RUR 1 million, respectively.

4. Rental income

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

As of 30 June 2012 the Group received a guarantee deposit for the last three months of lease of SkyLight, Danilovsky Fort and Leto in the amount of USD 7.9 million (or RUR 244.2 million), USD 2.0 million (or RUR 62.1 million) and EUR 3.1 million (or RUR 126.8 million), respectively. In the six-month period ended 30 June 2012 the Group recognised interest on tenants' guarantee deposits in the amount of RUR 11 million (Note 10).

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

4. Rental income (continued)

Rental income generated by Leto, Danilovsky Fort, Krasnobogatyrskaya (NIIDAR), Bul'var na Peterburgskoy (Kazan) and other properties in the six-month period ended 30 June 2012 amounted to RUR 311 million, RUR 104 million, RUR 60 million, RUR 29 million and RUR 40 million, respectively.

Rental income generated by Krasnobogatyrskaya (NIIDAR), Bul'var na Peterburgskoy (Kazan) and other properties in the six-month period ended 30 June 2011 amounted to RUR 72 million, RUR 23 million and RUR 24 million, respectively.

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

In the six-month period ended 30 June 2012 the Group signed an act of investment contract completion for Michurinsky project and recognised revenue and cost in the amount of RUR 2,763 million and RUR 2,147 million, respectively.

In the six-month period ended 30 June 2011 the Group recognised revenue and cost relating to the Nakhimovski-Dnepropetrovsky project in the amount of RUR 57 million and RUR 35 million, respectively.

	the six-month period ended 30 June (unaudited)	
	2012	**2011**
Total area transferred to customers, thousand square meters:	25.044	0.53
Including:		
transferred to the local authorities	3.376	–
transferred to other customers	21.668	0.53
Parking lots transferred to customers	3.376	0.11
Including:		
transferred to the local authorities	0.924	–
transferred to other customers	2.452	0.11

Revenue from room charges and other hotel services for the six-month period ended 30 June 2012 and 30 June 2011 in the amount of RUR 194 million and RUR 110 million, respectively, is attributable to Hotel Pekin, which the Group acquired in March 2011 (Note 3).

Other sales for the six-month period ended 30 June 2012 and 30 June 2011 represent general constructor service fees in the amount RUR 16 million and RUR 26 million, respectively, and other revenues.

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

6. Administration expenses

	the six-month period ended 30 June (unaudited)	
	2012	**2011**
Staff cost	451	288
Consulting and other professional services	109	35
Advertising costs	26	11
Depreciation and amortization	21	41
Banking services	9	4
Repairs, maintenance and utilities	7	12
Rent of premises and land	6	1
Security expenses	6	2
Communication services	4	4
Other	49	17
	688	**415**

7. Other operating income

	the six-month period ended 30 June (unaudited)	
	2012	**2011**
Gain on remesurement of investments in associate to fair value (Note 3)	92	–
Gain on plant reallocation	63	–
Recover of receivables written off in prior periods	–	129
Gain on bargain purchase (Note 3)	–	65
Reversal of tax provision	–	20
Reversal of legal provision	–	56
Other	38	34
	193	**304**

Gain on remeasurement of the investment in associate to fair value in the amount of RUR 92 million was recognized upon the acquisition of JSC Hals-Technopark (Note 3).

In the six-month period ended 30 June 2011 the Group reversed unrecoverable receivables written off in prior periods in the amount of RUR 129 million, reversed legal and tax provisions in the amount of RUR 20 million and RUR 56 million respectively.

In the six-month period ended 30 June 2012 the Group reallocated the plan as part of NIIDAR project. As a result the net gain of RUR 63 million was recognized as other operating income.

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

8. Other operating expenses

	the six-month period ended 30 June (unaudited)	
	2012	**2011**
Loss from remesurement of investment in associate to fair value (Note 3)	428	64
Receivables and other assets write off	157	241
Loss from sale of investment property	131	–
Taxes other than income tax	117	77
Penalty for cancellation of the contract on cooperation	110	–
Impairment of property, plant and equipment (Note 15)	62	–
Goodwill write off (Note 3)	12	–
Other	43	48
	1,060	**430**

In the six-month periods ended 30 June 2012 and 2011 the Group recognized a loss of RUR 428 million upon acquisition of SistemApsys S.A.R.L. and a loss of 64 million upon acquisition of Gandiva Enterprises Limited, respectively (Note 3).

In the six-month period ended 30 June 2012 the Group recognised a loss from sale of investment property in the amount of RUR 131 million, including loss from sale of B.Tatarskaya land plot and part of the Nastasinsky building in the amount of RUR 58 million and RUR 73 million, respectively.

In the six-month period ended 30 June 2012 the Group wrote off VAT reimbursable, receivables due from customers and other assets in the amount of RUR 79 million, RUR 73 million and RUR 5 million, respectively.

In the six-month period ended 30 June 2011 the Group wrote off receivables due from Telekom Development, a former associate of the Group, disposed in 2011, in the total amount of RUR 241 million.

In January 2012 the Group cancelled a contract with LLC Apsys Rus Management on managing of the Leto project caused by breach of this contract by the Group. As the result the Group paid penalty in the amount of RUR 110 million which were recognized as other operating expenses.

9. Finance income

	the six-month period ended 30 June (unaudited)	
	2012	**2011**
Interest on loans issued	93	173
Unwinding of discount for long-term receivable (Note 18)	38	–
Unwinding of discount for long-term VAT	–	57
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies	–	12
Interest on bank deposits	52	5
	183	**247**

The Group recognized the unwinding of the discount related to long-term input VAT as finance income in the six-month period ended 30 June 2011 in the total amount of RUR 57 million.

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

10. Finance expenses

	the six-month period ended 30 June (unaudited)	
	2012	**2011**
Interest on bank loans	3,557	2,734
Less: amounts capitalised	(1,399)	(869)
Interest on tenants' guarantee deposits (Note 4)	11	–
Total	**2,169**	**1,865**

In the six-month period ended 30 June 2012 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 424 million, RUR 904 million and RUR 71 million, respectively.

In the six-months period ended 30 June 2011 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 192 million, RUR 627 million and RUR 50 million, respectively.

11. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to expected total annual earnings, i.e., the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The major components of income tax expense for the six-month periods ended 30 June 2012 and 2011 are:

	2012 (unaudited)	**2011 (unaudited)**
Income taxes		
Current income tax expense	(214)	(4)
Deferred income tax (expense)/benefit relating to origination and reversal of temporary defferences	(86)	7
Income tax provision	(54)	–
Income tax (expense)/benefit	**(354)**	**3**

12. Completed investment property

	2012 (unaudited)	**2011 (unaudited)**
At 1 January	**5,572**	**5,232**
Capital expenditure on owned property	971	6
Acquisition of subsidiary (Note 3)	6,621	387
Disposals	(507)	–
Transfer from Investment property under construction (Note 13)	–	128
Fair value adjustment	251	37
At 30 June (unaudited)	**12,908**	**5,790**

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

12. Completed investment property (continued)

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

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

In determining the fair value of buildings, held primarily to earn rental income, totaling RUR 10,942 million, RUR 3,130 million, RUR 2,851 million and RUR 2,787 million as of 30 June 2012, 31 December 2011, 30 June 2011 and 1 January 2011, respectively, the income method was used.

In determining the fair value of land and buildings, held to benefit from capital appreciation over the long-term, totaling RUR 541 million, RUR 1,043 million, RUR 1,583 million and RUR 1,108 million as of 30 June 2012, 31 December 2011, 30 June 2011 and 1 January 2011, respectively, the income method was used.

In determining the fair value of land, held to benefit from capital appreciation over the long-term and for currently undetermined use, totaling RUR 1,425 million, RUR 1,399 million, RUR 1,357 million and RUR 1,337 million as of 30 June 2012, 31 December 2011, 30 June 2011 and 1 January 2011, respectively, the comparative method was used.

In the six-month period ended 30 June 2012 the Group sold B.Tatarskaya land plot and part of Nastasinsky building with a book value of RUR 345 million and RUR 162 million, respectively. Loss from the sale of these properties is reflected in other expenses (Note 8).

In the six-month period ended 30 June 2011 Bulvar na Peterburgskoy (Kazan) with a book value of RUR 128 million was transferred from investment property under construction to completed investment property as the Group has completed this property.

13. Investment property under construction

	2012 (unaudited)	**2011 (unaudited)**
At 1 January	**20,427**	**10,684**
Capital expenditure	1,400	53
Interest capitalised (Note 10)	424	192
Acquisition of subsidiary (Note 3)	–	5,038
Transfer to Completed investment property (Note 12)	–	(128)
Fair value adjustment	1,132	318
At 30 June (unaudited)	**23,383**	**16,157**

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

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

13. Investment property under construction (continued)

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

In determining the fair value of investment property under construction the income method was used.

14. Investments in associates and joint ventures

Investments in associates and joint ventures consisted of the following:

	Project	Voting and effective %	30 June 2012 (unaudited)	31 December 2011
JSC Ekvivalent	Nevskaya Ratusha	50%	2,092	2,100
Joint venture with Apsys	Leto	50%	–	966
Hals-Technopark	Povarskaya	50%	–	881
Total			**2,092**	**3,947**

	2012 (unaudited)	2011 (unaudited)
At 1 January	**3,947**	**4,565**
Share of gain/(loss) of associates and joint ventures, net of tax, in the interim consolidated statement of comprehensive income	(9)	22
Remesurement of stake in Hals-Technopark (Note 7)	92	–
Disposal of Hals-Technopark (Note 3)	(973)	–
Remesurement of stake in Joint venture with Apsys (Note 8)	(428)	–
Disposal of Joint venture with Apsys (Note 3)	(538)	
Disposal of Telekom-Development (Note 3)	–	(195)
At 30 June (unaudited)	**2,092**	**4,392**

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

	30 June 2012 (unaudited)	31 December 2011
Assets	14,468	28,558
Liabilities	(10,284)	(20,664)
Net assets	**4,184**	**7,894**

	30 June 2012 (unaudited)	30 June 2011 (unaudited)
Gain/(loss) for the six-month period ended	**(18)**	**44**

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

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

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

15. Property, plant and equipment

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2012	**2,219**	**113**	**1,004**	**3,336**
Additions	–	109	402	**511**
Acquisitions of a subsidiary (Note 3)	–	3	–	**3**
Transfer to inventory property (Note 17)	–	–	(492)	**(492)**
Disposals	–	(4)	–	**(4)**
30 June 2012 (unaudited)	**2,219**	**221**	**914**	**3,354**
Depreciation and impairment				
1 January 2012	**(64)**	**(49)**	**(609)**	**(722)**
Depreciation charge for the period	(37)	(13)	–	**(50)**
Impairment	–	–	(62)	**(62)**
Disposals	–	4	–	**4**
30 June 2012 (unaudited)	**(101)**	**(58)**	**(671)**	**(830)**
Net book value				
30 June 2012 (unaudited)	**2,118**	**163**	**243**	**2,524**
1 January 2012	**2,155**	**64**	**395**	**2,614**

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2011	**141**	**88**	**767**	**996**
Additions	–	2	80	**82**
Acquisitions of a subsidiary (Note 3)	2,091	10	–	**2,101**
Disposals	–	(5)	–	**(5)**
30 June 2011 (unaudited)	**2,232**	**95**	**847**	**3,174**
Depreciation and impairment				
1 January 2011	**(3)**	**(32)**	**–**	**(35)**
Depreciation charge for the period	(26)	(14)	–	**(40)**
Disposals		4	–	**4**
30 June 2011 (unaudited)	**(29)**	**(42)**	**–**	**(71)**
Net book value				
30 June 2011 (unaudited)	**2,203**	**53**	**847**	**3,103**
1 January 2011	**138**	**56**	**767**	**961**

Borrowing costs capitalised during the six-month periods ended 30 June 2012 and 2011 anounted to RUR 71 million and RUR 50 million, respectively (Note 10).

In the six-month periods ended 30 June 2012 and 2011 the Group capitalized staff costs in property, plant and equipment (project “Kamelia”) in the amount of RUR 7.8 million and RUR nil million, respectively.

In the six-month period ended 30 June 2012 a residential part of the “Kamelia” in the amount of RUR 492 million was transferred from property, plant and equipment to inventory property as the project reached an advanced stage and the Group became able to split it into two separate parts based on available project documentation.

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

15. Property, plant and equipment (continued)

As of 30 June 2012 the Group tested property, plant and equipment (project “Kamelia” – construction in progress) for recoverability. As a result the Group recognized impairment loss in the amount of RUR 62 million (Note 8) in the six-month period ended 30 June 2012.

In the six-month period ended 30 June 2011 the Group acquired GOK “Pekin”, which owns Project “Hotel and Office complex “Pekin” (Note 3).

16. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Other	Total
Cost			
1 January 2012	**92**	**37**	**129**
Goodwill on acquisition of subsidiary (Note 3)	769	–	769
Additions	–	4	4
30 June 2012 (unaudited)	**861**	**41**	**902**
Depreciation and impairment			
1 January 2012	**–**	**(23)**	**(23)**
Amortisation	–	(11)	(11)
30 June 2012 (unaudited)	**–**	**(34)**	**(34)**
Net book value			
30 June 2012 (unaudited)	**861**	**7**	**868**
1 January 2012	**92**	**14**	**106**

	Goodwill	Other	Total
Cost			
1 January 2011	**–**	**41**	**41**
Goodwill on acquisition of subsidiary (Note 3)	92	–	92
30 June 2011 (unaudited)	**92**	**41**	**133**
Depreciation and impairment			
1 January 2011	**–**	**(12)**	**(12)**
Amortization	–	(5)	(5)
30 June 2011 (unaudited)	**–**	**(17)**	**(17)**
Net book value			
30 June 2011 (unaudited)	**92**	**24**	**116**
1 January 2011	**–**	**29**	**29**

In the six-month period ended 30 June 2012 the Group recognized goodwill in the amount of RUR 769 million which arose on acquisition of SistemApsys S.A.R.L. (Note 3).

In the six-month period ended 30 June 2011 the Group recognized goodwill in the amount of RUR 92 million which arose on acquisition of Citer Invest B.V. (Note 3).

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

17. Inventory property

	2012 (unaudited)	2011 (unaudited)
At 1 January	**22,789**	**16,195**
Construction costs incurred	4,145	1,250
Interest capitalized (Note 10)	904	627
Acquisition of subsidiary (Note 3)	3,887	–
Transfer from property, plant and equipment (Note 15)	492	–
Property sold (Note 5)	(2,147)	(35)
Write-down of inventory to net realizable value	(2)	(48)
At 30 June (unaudited)	**30,068**	**17,989**

As of 30 June 2012 and 2011 the Group tested inventory property for recoverability. As a result of the test, in the six-month periods ended 30 June 2012 and 2011 the Group recognized loss on inventory property write off to net realizable value in the amount of RUR 2 million and RUR 48 million, respectively .

In the six-month periods ended 30 June 2012 and 2011 the Group capitalized staff costs in inventory property (project “Gorki-8”) in the amount of RUR 1.4 million and RUR 2.4 million, respectively.

18. Trade and other receivables and other financial assets

	30 June 2012 (unaudited)	31 December 2011
Trade receivables		
Trade receivable from third parties	30	102
Trade receivable from related parties	–	13
	30	**115**
Other receivables		
Other receivable from third parties	551	379
Other receivable from related parties	1	125
	552	**504**
	582	**619**

	30 June 2012 (unaudited)	31 December 2011
Other current financial assets		
Other financial assets	469	609
	469	**609**

	30 June 2012 (unaudited)	31 December 2011
Non-current financial assets		
Other financial assets	355	509
	355	**509**

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

18. Trade and other receivables (continued)

As of 30 June 2012 other non-current and current financial assets comprise the amortized cost of receivables from the sale of ZAO RTI Estate in 2011 in the amount of RUR 303 and RUR 364 million, respectively (31 December 2011: RUR 395 million and RUR 244 million, respectively). The effect of unwinding of discount is reflected in the financial income (Note 9).

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

19. Loans and notes receivable

	Interest rate %	Maturity	30 June 2012 (unaudited)	31 December 2011
Current – third parties:				
Rejdzher	9.60%	2013	31	–
Trast-Rezerv	10.00%	2013	26	–
Kuznetskij Most Development	10.00%	2013	7	–
Other Third Parties	Various	2012	11	9
			75	**9**
Current – related parties:				
VTB	7.22%	2013	35	–
Hals-Technopark	10.50%	2012	–	145
Other Related Parties	Various	2012	3	–
			38	**145**
			113	**154**
Non-current – third parties:				
Novjusar	10.00%	2014	11	–
			11	**9**
Non-current – related parties:				
SistemApsys Financing S.A.R.L.	8.79%	2015	–	860
Hals-Invest-Development	9.80%	2017	–	2,595
Hals-Invest-Development	10.50%	2017	–	31
Hals-Invest-Development	10.75%	2017	–	295
Hals-Invest-Development	11.50%	2017	–	12
Hals-Invest-Development	11.75%	2017	–	10
Hals-Invest-Development	11.875%	2017	–	583
Hals-Invest-Development	12.00%	2017	–	700
Hals-Invest-Development	17.00%	2017	–	161
Hals-Invest-Development	18.00%	2017	–	1,823
Other Related Parties	Various	2020	–	4
			–	**7,074**
			124	**7,228**

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

19. Loans and notes receivable (continued)

Loans and notes receivable are neither past due nor impaired.

Significant decrease of loans and notes issued in the six-month period ended 30 June 2012 caused by acquisition of SistemApsys Financing S.A.R.L. and Hals-Invest-Development (Note 3).

20. Cash and short term deposits

	30 June 2012 (unaudited)	31 December 2011
Cash at bank and on hand	442	132
Short-term deposits	2,637	1,906
	3,079	**2,038**

The weighted average interest rate on demand deposits as of 30 June 2012 and 31 December 2011 was 4% and 2%, respectively.

21. Other non-financial assets

	30 June 2012 (unaudited)	31 December 2011
Other non-current		
Advances issued for construction of investment property	3,036	1,807
Advances issued for construction of inventory property	–	4,097
Advances issued for construction of property, plant and equipment	176	207
	3,212	**6,111**
Other current assets		
Advances issued for construction of inventory property with period of realization above the year	2,590	–
Advances issued for construction of inventory property with period of realization within the year	227	221
Advance payments for taxes	32	45
Other current non-financial assets	101	106
	2,950	**372**

22. Equity

At 30 June 2012 the Company had 11,217,094 common shares issued and 11,211,534 shares outstanding. Nominal value of one share is equal to RUR 50.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the six-month periods ended 30 June 2012 and 2011 is as follows:

	Total shares authorised and issued	Treasury shares	Total shares authorised, issued and outstanding
	Thousands	Thousands	Thousands
As of 1 January 2012	11,217	(5)	11,212
As of 30 June 2012 (unaudited)	**11,217**	**(5)**	**11,212**
As of 1 January 2011	11,217	(5)	11,212
As of 30 June 2011 (unaudited)	**11,217**	**(5)**	**11,212**

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

23. Interest bearing loans and borrowings

	Interest rate %	Maturity	30 June 2012 (unaudited)	31 December 2011
Current interest-bearing loans and borrowings from related parties				
VTB	9.5%	2012	32,345	34,682
VTB	9.5%	2013	21,825	–
VTB	The rate of the Central Bank (RF) + 0.25%	2015	3,672	
VTB	12%	2016	9,948	
VTB	9.5%	2017	997	–
VTB	The rate of the Central Bank (RF) + 0.25%	2016	326	–
Other Related Parties	Various		–	3
			69,113	**34,685**
Current interest-bearing loans and borrowings from third parties				
Vnesheconombank	9.0%	2014	2,226	
Other Third Parties	Various		11	9
			2,237	**9**
Total current interest-bearing loans and borrowings			**71,350**	**34,694**
Non-current interest-bearing loans and borrowings from related parties				
VTB	8.0%	2015	721	260
VTB	8.0%	2017	–	2,825
VTB	9.0%	2015	–	65
VTB	9.5%	2013	–	20,951
VTB	9.5%	2015	2,906	3,033
VTB	9.5%	2016	4,502	–
VTB	9.5%	2017	2,973	–
VTB	9.5%	2019	1,360	1,050
VTB	9.5%	2020	3,878	3,256
VTB	10%	2015	1,040	–
VTB	The rate of the Central Bank (RF) + 0.25%	2014	5,345	3,970
VTB	12%	2016	–	7,004
VTB	The rate of the Central Bank (RF) + 0.25%	2015	560	4,035
			23,285	**46,449**
Non-current interest-bearing loans and borrowings from third parties				
Emmomax International N.V	8.15%	2018	1,206	1,162
Vnesheconombank	9.0%	2014	–	2,150
Other Third Parties	Various	Various	42	151
			1,248	**3,463**
Total non-current interest-bearing loans and borrowings			**24,533**	**49,912**
Total interest-bearing loans and borrowings			**95,883**	**84,606**

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

23. Interest bearing loans and borrowings (continued)

The schedule of repayment of debt as at 30 June 2012 is as follows:

Year ended 30 June	
2013	54,182
2014	7,571
2015	8,941
2016	14,776
2017	3,969
2018	1,206
2019	1,360
2020	3,878
Total	**95,883**

In January 2012 the Group agreed with VTB to increase the limit of the credit agreement for financing of the Leto project up to USD 190 million. The repayment date was prolonged from May 2012 to December 2016. In April 2012 the Group converted the currency of this loan agreement from USD to RUR. The interest rate was not changed and remained 9.5% per annum. As a result no substantial modification of the terms of an existing liability occurred. As of 30 June 2012 the loan facility was utilized in the amount of RUR 4,005 million.

In February 2012 the Group signed new credit facility agreement with VTB with a limit of RUR 980 million, the interest rate of 9.5% per annum and maturing in five years for the purpose of financing the Povarskaya project. As of 30 June 2012 the loan facility was fully utilized.

In March 2012 the Group signed new loan agreement with VTB with a limit of RUR 1,780 million, the interest rate of 9.5% per annum and maturing in three years for the purpose of financing the Literator project. As of 30 June 2012 the loan facility was not utilized.

As a result of acquisition of CJSC Hals-Technopark in April 2012 the Group inherited liability to VTB in the amount of RUR 253 million principal amount and accrued interest in the amount of RUR 14 million. The loan facility was obtained for the purpose of financing the residential real estate project Povarskaya, has a credit limit of RUR 678 million, bears interest of the Central Bank (RF) + 0.25% and matures in March 2016. As of 30 June 2012 the loan facility was utilized in the amount of RUR 308 million.

In April 2012 the Group converted the currency of the loan agreement with VTB signed for the purpose of purchase of 50% share in CJSC Ekvivalent from USD to RUR. The interest rate was not changed and remained 9.5% per annum. As a result no substantial modification of the terms of an existing liability occurred. As of 30 June 2012 the loan facility was utilized in the amount of RUR 2,370 million.

In April 2012 the Group terminated loan agreement with VTB for the purpose of financing Elninskaya, 28A project and the loan facility was fully repaid.

In January 2011 the Group modified the repayment terms of the credit agreement for long-term financing of the Gorki-8 (land plot) project with the limit of USD 15.6 million (RUR 475 million). The repayment date was reagreed from April 2011 to July 2015. As a result no substantial modification of the terms of an existing liability occurred. As of 31 December 2011 the loan facility was utilized in the amount of RUR 475 million. As of 30 June 2012 the loan facility was utilized in the amount of RUR 475 million.

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

23. Interest bearing loans and borrowings (continued)

In January 2011 the Group signed new loan agreement with VTB for the credit line in amount of RUR 12,674 million and the interest rate of 12.0% for the purpose of financing the residential real estate project Gorki-8 (land plot). The loan is to be repaid in January 2016. As of 31 December 2011 the loan facility was utilized in the amount of RUR 6,506.0 million. As of 30 June 2012 the loan facility was utilized in the amount of RUR 9,008 million.

In January 2011 the Group agreed with VTB to increase the limit on the corporate credit facility up to RUR 23,508 million which was supposed to be used for current activity and project financing as well as refinancing. In September 2011 the Group agreed with VTB to reduce the limit on the corporate credit facility to RUR 18,508.2 million. As of 31 December 2011 the loan facility was utilized in the amount of RUR 18,508.2 million. As of 30 June 2012 the loan facility was utilized in the amount of RUR 18,508.2 million.

In April 2011 the Group signed the credit agreement to finance its subsidiaries. Under these credit facilities VTB will provide the financing of up to USD 84 million (RUR 2,371 million) and the interest rate of 8.0%. The loan is to be repaid in December 2017. As of 31 December 2011 the loan facility was utilized in the amount of USD 84 million (RUR 2,704.5 million). In June 2012 the Group converted the currency of the loan agreement for the purpose of financing its subsidiaries with VTB from USD to RUR. The interest rate was changed from 8% up to 9.5%. As a result no substantial modification of the terms of an existing liability occurred. As of 30 June 2012 the loan facility was utilized in the amount of RUR 2 740 million.

In April 2011 the Group signed the credit agreement with the limit of USD 119 million (RUR 3,272 million) and the interest rate of 9% for the purpose of financing the commercial real estate project multifunctional terminal complex “City-11”. The loan is to be repaid in November 2015. As of 31 December 2011 the loan facility was utilized in the amount of USD 2 million (RUR 64.9 million). In June 2012 the Group converted the currency of the loan agreement for the purpose of financing the commercial real estate project multifunctional terminal complex “City-11” with VTB from USD to RUR. The interest rate was changed from 9% up to 10%. As a result no substantial modification of the terms of an existing liability occurred. As of 30 June 2012 the loan facility was utilized in the amount of RUR 1,037 million.

24. Trade and other payables

	30 June 2012 (unaudited)	31 December 2011
Trade payables		
Trade payable to third parties	574	625
Trade payable to related parties	–	6
	574	**631**
Other payables		
Other payable to third parties	1,176	535
	1,176	**535**
	1,750	**1,166**

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

25. Other non-financial liability

	30 June 2012 (unaudited)	31 December 2011
Non-current		
Advances from customers	–	148
Tenants' guarantee deposits	265	177
Deferred rent income	168	144
	433	**469**
Current liability		
Advances from customers with period of settlement above the year	247	–
Advances from state authority with period of settlement above the year	1,659	–
Advances from customers with period of settlement within the year	4,685	3,529
Advances from state authority with period of settlement within the year	351	1,375
Advances under agency agreements	–	1,811
	6,942	**6,715**

26. Fair values of financial assets and financial liabilities

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

	Carrying amount		Fair value	
	30 June 2012 (unaudited)	31 December 2011	30 June 2012 (unaudited)	31 December 2011
Financial assets				
Trade and other receivables	1,051	1,228	1,051	1,228
Loans and notes receivable	124	7,228	124	7,228
Other financial assets	355	509	355	509
Cash and short-term deposits	3,079	2,038	3,079	2,038
	4,609	**11,003**	**4,609**	**11,003**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(9,903)	(8,005)	(9,903)	(8,005)
Fixed rate borrowings	(85,980)	(76,601)	(83,657)	(74,830)
Trade and other payables	(1,646)	(1,166)	(1,646)	(1,166)
	(97,529)	**(85,772)**	**(95,206)**	**(84,001)**

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

27. Transactions with related parties

The following table provides the details of transactions that have been entered into with related parties for the relevant six-month period ended 30 June:

Transactions with related parties	**2012 (unaudited)**	**2011 (unaudited)**
Services provided to associates		
Services provided to SistemApsys	1	18
Services provided to other associates	–	1
	1	**19**
Interest income from associates		
Interest income from SistemApsys S.A.R.L. and Hals-Invest-Development	–	206
Interest income from Bank of Moscow	16	–
Interest income from other associates	–	9
	16	**215**
Interest on borrowings to shareholders		
Interest on borrowings payable to VTB	3,463	2,475
	3,463	**2,475**
Interest income from shareholders		
Interest income from VTB	36	–
	36	**–**

	30 June 2012 (unaudited)	**31 December 2011**
Amounts due from associates		
Trade and other receivables from other associates	–	138
Loans and notes receivable from SistemApsys Financing S.A.R.L. and Hals-Invest-Development	–	7,070
Loans and notes receivable from other associates	3	149
	3	**7,357**
Amounts due to associates		
Loans and borrowings from other associates	–	3
Trade and other payables to other associates	–	6
Other non-financial liability to Hals-Invest-Development	–	371
	–	**380**
Amounts due from shareholder		
Cash and short-term deposits in VTB	1,259	2,032
Loans and notes receivable from VTB	35	–
	1,294	**2,032**
Amounts due to shareholders		
Loans and borrowings from VTB	92,399	81,131
	92,399	**81,131**
Amounts due from other related parties		
Cash and short-term deposits in Bank of Moscow	1,816	–
	1,816	**–**

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

27. Transactions with related parties (continued)

Compensation of key management personnel of the Group for the six-month periods ended 30 June:

	2012 (unaudited)	2011 (unaudited)
Short-term employee benefits	49	42
Other long-term benefits	6	1

28. Segment information

For management purposes, the Group is organised into operating segments based on nature of property and has six reportable segments in the six-month period ended 30 June 2012:

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

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

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

The six-month period ended 30 June 2012

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construction	Under construction	Submitted to the operating lease	Under construction	Rented apartments	Total
Segment revenue	**1,405**	**241**	**73**	**450**	**10**	**232**	**2,411**
Accrual vrs. cash basis	–	–	–	–	–	–	1,136
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**3,547**

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

28. Segment information (continued)

The six-month period ended 30 June 2012 (continued)

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under construc-tion	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment result	**972**	**109**	**(9)**	**(147)**	**37**	**104**	**1,066**
Accrual vrs. cash basis	–	–	–	–	–	–	(1,862)
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(796)**

The six-month period ended 30 June 2011

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under construc-tion	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment revenue	**1,071**	**17**	**19**	**81**	**–**	**130**	**1,318**
Accrual vrs. cash basis	–	–	–	–	–	–	(963)
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**355**

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under constructio n	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment result	**481**	**(1,888)**	**531**	**(48)**	**(59)**	**30**	**(953)**
Accrual vrs. cash basis	–	–	–	–	–	–	(125)
Loss before tax per IFRS consolidated financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**(1,078)**

* *Includes rental income, sales of inventory property revenue from room charges and other hotel services and other sales per the consolidated statement of comprehensive income*

** *Including impairment losses by segment hospitality under construction in the amount of RUR 62 million*

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

29. Guarantees and pledges

Warranties and guarantees of work performed

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

Pledges

As of 30 June 2012 and 31 December 2011 common shares of the Group's entities have been pledged as follows:

Group`s company	Projects	Number of shares pledged	Number of shares pledged as a percentage of total shares
OJSC Lubyanka-Development	DM Lubyanka	22,004,320	100%
OJSC Sistema-Temp	Bol`shaya Tatarskaya, 35	4,680,000	100%
OJSC Beiging-Invest	Pekin (Bol`shaya Sadovaya)	1,350	90%
OJSC Pansionat s lecheniem "Kamelia"	Kamelia	13,000	100%
CJSC EZNCh	L`va Tolstogo, 23 (Literator)	100	100%
CJSC Kuntsevo-Invest	Rublevskoe highway, 111 A; Elninskaya, 28A	5,000	100%
CJSC Hals-Tehnopark	Povarskaya, 8	1,890,900	50%
CJSC Ekvivalent	Nevskaja ratusha	500	50%
CiTer Invest B.V.	City-11	101	50.5%

As of 30 June 2012 and 31 December 2011 the Group pledged land plots (inventory property) in the Odintsovsky Region (Soloslovo) with a carrying amount of RUR 14,891 and RUR 10,793 million, respectively, as security under the credit line from VTB in the amount of RUR 4.0 billion and RUB 4.0 billion, respectively.

As of 30 June 2012 and 31 December 2011 the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region (inventory property) with a carrying amount of RUR 1,449 million and RUR 1,449 million, respectively, as security under the loan received from Vnesheconombank in the amount of RUR 1,701 and RUR 1,701 million, respectively.

As of 30 June 2012 and 31 December 2011 the Group pledged Detsky Mir Lubyanka (investment property under construction) with a carrying amount of RUR 6,039 million and RUR 5,901 million, respectively, as security under the credit line from VTB in the amount of RUR 1,219 million and RUR 959 million, respectively.

As of 30 June 2012 and 31 December 2011 the Group pledged Bulvar na Peterburgskoy (Kazan) (completed investment property) with a carrying amount of RUR 113 million and RUR 100 million, respectively, as security under the credit line from VTB in the amount of RUR 25 million and RUR 25 million, respectively.

As of 30 June 2012 and 31 December 2011 the Group pledged land plots and buildings (inventory property) in Khamovniki (the project Literator) with a carrying amount of RUR 2,642 million and RUR 2,614 million, respectively, as security under the credit line from VTB in the amount of RUR 18,508 million and RUR 18,508 million, respectively.

30. Commitments and contingencies

Taxation

Possible liabilities identified by the management as of 30 June 2012 as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these interim condensed consolidated financial statement could be approximately RUR 2,114 million.

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to 30 June 2012. A summary of significant commitments under construction contracts is provided below:

Gorki-8 (land plot) – The Group entered contractual agreements for construction of housing estate in Moscow Region. Commitments under these contracts amounted to RUR 3,572 million and RUR 6,088 million as of 30 June 2012 and 31 December 2011, respectively.

Skylight – The Group entered contractual agreements for construction of multifunctional complex with two office buildings in Moscow. Commitments under these contracts amounted to RUR 439 million and RUR 1,595 million as of 30 June 2012 and 31 December 2011, respectively.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 4,677 million and RUR 4,735 million as of 30 June 2012 and 31 December 2011, respectively.

Kamelia – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 3,825 million and RUR 4,178 million as of 30 June 2012 and 31 December 2011, respectively.

Elninskaya 28A – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 486 million and RUR 1,363 million as of 30 June 2012 and 31 December 2011, respectively.

City-11 – The Group entered contractual agreements for construction of multifunctional terminal complex “City-11”. Commitments under these contracts amounted to RUR 12,777 million and RUR 12,722 million as of 30 June 2012 and 31 December 2011, respectively.

Literator – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 5,992 million and RUR 6,062 million as of 30 June 2012 and 31 December 2011, respectively.

31. Subsequent events

In July 2012 the Group agreed with VTB to increase the limit of a credit agreement from RUR 5,000 million up to RUR 6,200 million, to reduce the limit of another credit facility agreement from RUR 13,970 million to RUR 12,970 million and to prolong the repayment date of this facility from August 2012 to December 2017; to prolong the repayment date of a credit facility with a limit of RUR 5,588 million from November 2012 to December 2017, to prolong the repayment date of a credit facility with a limit of RUR 756 million from November 2012 to December 2020, and to prolong the repayment date of a credit facility with a limit of RUR 4,000 million from November 2012 to December 2020. As a result all loans due to VTB maturing in 2012 with a carrying value of RUR 32,345 million as of 30 June 2012 were prolonged until 2017-2020.

In August 2012 the Group agreed with VTB to increase the limit one of the credit facilities up to RUR 1,297 million, which is for the purpose of financing the Povarskaya residential real estate project. The Group also pledged an additional 1,891,000 shares of CJSC Hals-Tehnopark, which comprises 50% of the shares of this entity, as security for this increased credit facility.