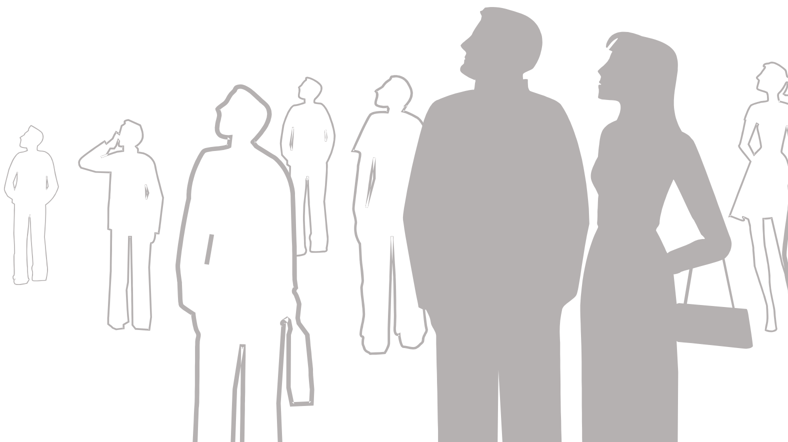
Gallery Out of Home Media Ltd.

Consolidated Financial Statements

Annual Report
2009



Out of Home Media for Mobile People

DISCLAIMER

Forward Looking Statements

This discussion and analysis should be read in conjunction with the audited consolidated financial statements and the notes thereto of Gallery Out of Home Media Group Ltd. (the “Group”).

Some statements in this discussion, including any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance, are not historical facts and are “forward-looking.” The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in the forward-looking statements made in this discussion. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "believe," "anticipated," "estimated," "intends," "expects," "plans," "seek," "projection" and "outlook." These statements involve known and unknown risks, uncertainties and other factors, and are made based on estimates, assumptions and uncertainties, all of which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to such factors.

The factors discussed above, as well as other factors, could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this report by us or on our behalf, thus you should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for us to predict such factors. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

Reporting

While our presentation currency is US dollars, the functional currencies of our group companies are Russian rubles, Ukrainian hryvnias and US dollars. As at the reporting date, the assets and liabilities of the Group’s subsidiaries are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their statement of operations is translated at the average exchange rates for the respective period. The exchange differences arising on the translation are taken directly to a separate component of equity.

DESCRIPTION OF THE BUSINESS

The Group was founded in 1994 as a regional outdoor advertising contractor and has grown, organically and through acquisitions, to become the second largest outdoor advertising contractor in Russia and Ukraine in terms of number of advertising faces owned.

We offer our clients a comprehensive package of services related to outdoor advertising, including campaign planning and a diverse product and location mix. We have three principal outdoor advertising product lines comprising 47,170 total advertising faces as of 31 December 2009.

Billboards

Billboards include traditional 3x6 meter roadside billboards. As of 31 December 2009, we owned 8,978 and 3,556 billboard advertising faces in Russia and Ukraine, respectively.

Street Furniture

We own street furniture in Moscow, several regional cities and Ukraine. Our primary street furniture formats are directional signs, pedestrian road fences, scrollers, 1.2x1.8 meter city formats and lamp posts. As of 30 September 2009, we owned 17,994 and 2,781 street furniture advertising faces in Russia and Ukraine, respectively.

Transport & Other Displays

Through the acquisition of Techprogress in 2006, the Group acquired a five year contract with “Mosgortrans” (Moscow State Public Transport Company) for placement of advertising on and inside various types of transportation units. Currently the Group has the right to place advertising on more than 5,000 buses, trolleys and trams and inside more than 7,000 buses, trolleys and trams. As of 31 December 2009, we owned 13,665 and 196 transport and other advertising faces in Russia and Ukraine, respectively.

YEAR ENDED 31 DECEMBER 2009 UPDATE

1. ACQUISITIONS & DISPOSALS

During 2009, the Group disposed of a number of non-core assets in an effort to generate liquidity and simplify its structure.

On 20 January 2009, the Group sold Transreklama, a company that had contracts that potentially could support advertising in railways, for cash consideration of $0.5 million.

On 17 March 2009, the Group completed the sale of Stimul Group, a local operator located in Sochi for cash consideration of $0.5 million.

On 30 March 2009, the Group sold ADV Technology LLC, a small outdoor operator in Barnaul, for cash consideration of $0.09 million.

In the second quarter of 2009, the Group sold the following companies for the nominal value of their shares: Gallery Indoor-Neva LLC, IMTV, Digital Gallery LLC and Gallery Vologda LLC.

All abovementioned disposals are presented in more detail in Note 6 of the consolidated financial statements.

2. OUTLOOK

The worldwide global financial crisis has contributed to a significant slowdown in the demand for advertising, which directly impacts our revenues. The slowdown that we experienced in the fourth quarter of 2008 has deepened, and as a result, our revenues in 2009 were down significantly. This decline was led by a dramatic decrease in advertising pricing in 2009 coupled with decreased occupancy. We are therefore focusing on expense reduction, cash preservation and liquidity management.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following discussion of the Group's financial position and results of operations should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2009 and the related notes thereto, as well as other financial information included elsewhere in this document. The audited consolidated financial statements for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Financial Highlights

In $ thousands	**Year ended 31-December-2009**	**Year ended 31-December-2008**
Revenues	105,479	213,193
Gross Profit	29,386	90,906
EBITDA	11,365	52,128
Adjusted EBITDA[1]	11,365	59,607
EBITDA margin	11%	25%
Adjusted EBITDA margin	11%	28%

Capitalization

In $ thousands	**31 December 2009**	**31 December 2008**
Senior Secured Notes	179,930	163,579
PIK Loan	139,344	123,269
Finance leases	22	4,379
Total Gross debt	**319,296**	**291,227**
Senior Gross debt	179,952	167,958
Total debt/ Adj. EBITDA	28.1X	4.9X
Senior debt/ Adj. EBITDA	15.8X	2.8X

[1] **Adjusted for imputed tax**
Starting on 1 January 2005, outdoor advertising operators in Russia became subject to imputed tax in certain municipalities. Imputed tax is assessed on the number of advertising faces a company owns, as contrasted with the revenue generated by its outdoor advertising business. Imputed tax was introduced to reduce tax avoidance in the industry. In municipalities that have adopted the imputed tax, it replaced profit, property and unified social taxes. Imputed tax payers are not subject to value added tax on operations in connection with activities subject to imputed tax, with the exception of value added tax payable on imported goods. However on 22 July 2008, the Russian government implemented federal law #155, which clarified the criteria for the eligibility for companies to use the imputed tax regime. Due to these clarifications, beginning 1 January 2009, the Group moved back to the general tax regime under which the Group is subject to a 20% tax on profits and is required to collect 18% value added tax on its advertising revenues. Outdoor advertising activities in Ukraine continue to be taxed under the general profit tax regime. As a result, from 1 January 2009 forward, EBITDA and Adjusted EBITDA for the Group are the same.

EBITDA Reconciliation to Net Profit

In $ thousands	**Year ended 31-December-2009**	**Year ended 31-December-2008**
Net profit	**(117,785)**	**(156,212)**
Add back:		
Income tax (benefit)/expense	(17,020)	34,289
Excess fair value of net assets acquired over purchase consideration	–	380
Loss on disposal of property, equipment and intangible assets	2,180	3,785
(Gain)/loss on disposal of subsidiaries	(566)	2,068
Impairment loss	88,422	91,839
Finance income	(801)	(12,557)
Finance costs	36,127	38,423
Depreciation & amortization	14,705	18,698
Effect of foreign exchange movement	6,103	31,415
EBITDA	**11,365**	**52,128**
Imputed tax	–	7,479
Adjusted EBITDA	**11,365**	**59,607**

REVENUES

Total revenues for the year 2009 decreased by 50% relative to the same period last year, which is an impact of the continuing worldwide global financial crisis that resulted in a significant slowdown in the demand for advertising. In addition, the decrease in revenues was further intensified by the devaluation of the Russian ruble against the US dollar by 22% during the course of 2009.

In $ thousands	**Year ended 31-December-2009**	**Year ended 31-December - 2008**
Revenues on own boards	87,443	183,134
Media buying revenues	18,036	30,059
Total revenues	**105,479**	**213,193**

Revenues on own boards
Revenues for the year of 2009 from own boards decreased by 52% in comparison to the same period in 2008.

Media buying revenues
Revenues from subcontracted advertising faces decreased by 40% for the year of 2009.

COST OF REVENUES

In $ thousands	Year ended 31-December-2009	Year ended 31-December-2008
City fees and permits	22,736	41,089
Subcontractors fees	14,947	28,521
Maintenance and repair expenses	11,708	15,615
Payroll of production personnel	9,946	15,274
Depreciation	10,080	13,059
Electricity	2,071	2,489
Warehouse expenses	1,412	2,148
Transportation expenses	934	1,504
Other	2,259	2,588
Total	**76,093**	**122,287**

City fees and permits
City fees include payments made to landowners (principally municipalities), building owners and advertising agreements for the right to place advertising displays on the property or buildings owned by third parties. City fees have decreased by 45%, which is mainly attributable to the ruble devaluation and temporary decrease of city fees granted by city authorities. The Moscow City Authorities granted a 30% decrease in rates starting from March 2009 and effective through December 2009. In ruble terms, city fees decreased by 29% versus the same period last year. As a percentage of revenues on own boards, city fees have increased from 19% in 2008 to 22% in 2009 due to the relatively fixed nature of these expenses.

Subcontractor fees
Subcontractor fees decreased during the year of 2009 by 48% in line with decreased media buying revenues.

Maintenance and repair expenses
Maintenance and repair expenses include cost of materials and spare parts for the day to day maintenance and monitoring of advertising structures, materials for posting and servicing the units as well as subcontractor fees to perform maintenance and repairs on our advertising displays during peak demand periods. This expense item has declined by 25% during in 2009.

Payroll of technical personnel
Payroll of technical personnel decreased by 35%, which reflects, along with the ruble devaluation, the fact that a number of employees left the Group during the first half of 2009. Partially offsetting this decrease was an increase in unified social tax (by 32% in ruble terms) which is the result of the mandatory switch of all Group companies in Russia to the general tax regime in 2009.

Depreciation
This expense category includes depreciation of fixed assets. The decrease in depreciation expense by 23% is mainly associated with the devaluation of the ruble.

Other
Other expenses in both years consist primarily of agency commissions.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In $ thousands	Year ended 31-December-2009	Year ended 31-December-2008
Payroll	18,514	24,065
Depreciation and amortization	4,625	5,639
Office rent and related expenses	2,967	5,345
Bad debt expense	1,472	4,375
Audit and consulting expenses	1,375	3,102
Taxes other than profit tax	1,098	2,404
Communication expense	733	1,238
Advertising and marketing expenses	321	866
Business trip and representative expenses	310	819
Transportation expenses	264	693
Security expenses	217	417
Other	1,523	1,334
Total	**33,419**	**50,297**

Payroll
Payroll decreased by 23% in 2009. Although the Group's headcount is lower than prior year, it recorded significant one-off expenses associated with the exit of personnel. Another fact or that increased payroll expenses is that unified social tax expense increased by 43% in ruble terms as a result of all companies of the Group migrating to the regular tax regime in 2009.

Depreciation and amortization
This expense category includes depreciation of non-production fixed assets and amortization of intangible assets consisting primarily of software, tender fees and long-term contracts. These expenses decreased in dollar terms mainly due to the ruble devaluation.

Office rent and related expenses
The decrease of office rent and related expenses is primarily the result of the Group's negotiations with its landlords based on the economic recession as well as the Group's efforts to sublease its office space in Moscow.

Bad debt expense
The Group recorded increased bad debt expense in 2008, which was associated with the significant deterioration of payment capacity of counteragents in the crisis time. In 2009, the situation has stabilized to a certain extent and the payments have improved.

Audit & consulting expense
Audit and consulting expenses have decreased due to the Group's cost cutting measures.

Restructuring expenses
During 2009, the Group incurred approximately $9.8 million in restructuring costs. The Group expects total restructuring costs to approximate $15.7 million. As of 31 December 2009, these costs were not recorded as expenses, but capitalized as prepaid expenses. These expenses will be accounted for in 2010 when the Group will record its debt restructuring according to the implementation of the Schemes of Arrangement.

OTHER KEY EXPENSES

Imputed tax
The decrease of imputed tax to zero is associated with the Group's migration back to the general taxation system in Russia according to the new legislative requirements effective 1 January 2009.

Impairment loss
As of 31 December 2009, the Group performed an impairment test in relation to its non-current assets in accordance with IAS 36, *Impairment of Assets*. As mentioned earlier, the worldwide global financial crisis has contributed to a significant slowdown in the demand for advertising, which directly impacts our revenues. The slowdown that we experienced in the fourth quarter of 2008 has deepened, and as a result, our revenues in 2009 were down significantly. As a result, the estimated value-in-use of the Russian business segment exceeded its carrying amount as of 31 December 2009. As a result, the Group recorded an impairment loss of $88.4 million, which consists of an impairment of $22.2 million in property and equipment, $63.5 million in intangible assets and $2.7 million in long-term advances.

Finance income
Finance income in 2009 represents interest earned on cash deposits held in various banks. In prior year, the significant finance income recognized related to two items. First, the management of the Group revised its estimate of the PIK loan repayment date from July 2009 to the contractually agreed maturity date, 15 November 2013. As a result of this change in estimate of the repayment period, the Group adjusted the carrying amount of the loan to reflect the revised estimated cash flows, which ultimately resulted in a gain of $4.4 million. Additionally, on 5 November 2008, the Group purchased the nominal amount of $13.5 million of its Senior Secured Notes for a net cost of $5.9 million. This transaction resulted in a gain of $7.1 million.

Finance costs
Finance costs decreased to $36.1 million in 2009 from $38.4 million for the year of 2008. The decrease is due to the fact that the Group purchased the nominal amount of $13.5 million of its Senior Secured Notes in November 2008 as well as the decrease in the 3-month LIBOR rate associated with the PIK Loan.

Loss on disposal of property and equipment
In the first half of 2009, the Group sold a number of advertising structures that had become unprofitable due to the decline in the advertising market in order to maintain liquidity. These sales led to a loss on the book value of the assets.

Loss on disposal of subsidiaries

As noted earlier, the Group disposed of a number of non-core assets in an effort to generate liquidity and simplify its structure during the first half of 2009. This resulted in a gain of $0.1 million, In addition, in November 2009, the Group recognized a gain of $0.4 million after receiving an additional portion of the agreed upon purchase price for PVG Media LLC that was previously written off as unrecoverable in 2008.

In the first half of 2009, the Group sold a number of advertising structures that had become unprofitable due to the decline in the advertising market in order to maintain liquidity. These sales led to a loss on the book value of the assets.

OTHER KEY EXPENSES (continued)

Net foreign exchange gain

Foreign exchange gains or losses arise when transactions are denominated in a currency different from the operational unit's functional currency. As the US dollar appreciated considerably against the ruble during the course of 2009, the Group recognized a loss of approximately $6.1 million. This is primarily due to the revaluation of the principal amount of the Group's Senior Secured Notes to be repaid by the Group's main Russian subsidiary as well as an intercompany loan from one of the Group's offshore entities to the Group's main Russian subsidiary that is fixed in rubles.

Income tax expense

The Group's income tax line item is composed of current and deferred tax expense or benefit components. In regards to the Group's current income tax expense, this component decreased from $3.9 million in 2008 to $0.8 million in 2009, which corresponds to the Group's drop in profitability in 2009. In relation to the Group's deferred tax component, the Group recognized a significant deferred tax benefit of $17.8 million in 2009 versus a deferred tax expense of $30.3 million in the prior year.

The large deferred tax expense in 2008 resulted from the Group migrating back to the general profit tax regime as of 1 January 2009. Consequently, the Group calculated deferred income tax assets and liabilities on temporary differences as of 31 December 2008, which resulted in a deferred tax charge of $30.3 million. The most significant portion of the 2008 deferred tax charge related to indefinite lived licenses and permits that were acquired through business combinations in 2005-2007. As these assets are not recognized in the tax books of the acquired entities, a temporary difference exists between the tax and IFRS cost basis of these assets. Accordingly, the Group recognized a tax expense for these assets in 2008.

In contrast, the Group recognized a significant deferred tax benefit in the current year that resulted from the Group impairing approximately $63.5 million in intangible assets. For more information, please see Note 21 to the consolidated financial statements.

PERFORMANCE ANALYSIS

The Group measures its performance using certain indicators. With respect to the consolidated statement of operations, the Group uses three key indicators:

Gross Profit

Gross profit is calculated as revenues less cost of revenues. Gross profit decreased to $29.4 million for the year of 2009 from $90.9 in 2008. The Group's gross profit yield decreased significantly from 43% in 2008 to 28% in 2009 due primarily to the sharp decrease in revenues and fixed nature of the Group's costs.

Adjusted EBITDA

EBITDA is defined as net profit plus income tax expense (or minus benefit), minus excess fair value of net assets acquired over purchase consideration, plus net interest expense, plus loss (or minus gain) on disposal of property and equipment or impairment losses, plus depreciation of property and equipment and amortization of intangibles and plus non-cash share-based payments. In addition, we adjust the calculation for foreign currency exchange differences resulting from debt held in foreign currencies at the operating level. Adjusted EBITDA equals EBITDA plus imputed tax. On 22 July 2008, the Russian government implemented federal law #155, which clarifies the criteria for the eligibility for companies to use the imputed tax regime. Due to these clarifications, beginning 1 January 2009, the Group moved back to the general tax regime in Russia. As a result, from 1 January 2009 forward, EBITDA and Adjusted EBITDA for the Group are the same.

Other companies may calculate Adjusted EBITDA differently.

We believe that Adjusted EBITDA is useful to investors as a measure of operating performance because it eliminates variances caused by the amounts and types of capital employed and amortization policies and helps investors evaluate the performance of our underlying business. We also believe that Adjusted EBITDA is a measure commonly used by analysts and investors in the outdoor advertising industry.

The Group's Adjusted EBITDA for the year of 2009 amounted to $11.4 million, which decreased by $48.2 million from $59.6 million in the same period in the prior year.

CASH FLOW

Cash decreased by $7.4 million during the year of 2009. This is primarily due to the repayment of finance leases as well as the payment of restructuring costs and minimal required capital expenditures.

Key Performance Indicators

Revenues breakdown *In $ thousands*	Year ended 31-December-2009	Year ended 31-December-2008
RUSSIA		
Billboards	37,119	80,562
Street Furniture	25,533	41,605
Transport & Other	19,946	42,144
Total	**82,598**	**164,311**
UKRAINE		
Billboards	3,339	11,398
Street Furniture	831	4,620
Transport & Other	675	2,805
Total	**4,845**	**18,823**
Revenues on Own Boards	**87,443**	**183,134**
Russia Media Buying	15,495	20,467
Ukraine Media Buying	2,541	9,592
Media Buying Revenues	**18,036**	**30,059**
GRAND TOTAL	**105,479**	**213,193**

Number of Advertising Faces	31-December-2009			31-December-08		
Formats	**Russia**	**Ukraine**	**TOTAL**	**Russia**	**Ukraine**	**TOTAL**
Billboards	8,978	3,556	12,534	9,008	3,573	12,581
Street Furniture	17,994	2,781	20,775	18,715	2,961	21,676
Transport & Other	13,665	196	13,861	13,397	194	13,591
Total	**40,637**	**6,533**	**47,170**	**41,120**	**6,728**	**47,848**

Occupancy	4Q2009	3Q2009	2Q2009	1Q2009	4Q2008	3Q2008	2Q2008	1Q2008	4Q2007
RUSSIA									
Billboards	85%	78%	78%	57%	83%	85%	87%	68%	89%
Street Furniture	74%	75%	75%	72%	76%	74%	75%	71%	82%
Transport & Other	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Occupancy	4Q2009	3Q2009	2Q2009	1Q2009	4Q2008	3Q2008	2Q2008	1Q2008	4Q2007
UKRAINE									
Billboards	77%	50%	49%	38%	80%	83%	86%	57%	n/a
Street Furniture	55%	34%	35%	41%	39%	81%	59%	48%	n/a
Transport & Other	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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Independent Auditors' Report

To the Shareholders of Gallery Out of Home Media Ltd.

We have audited the accompanying consolidated financial statements of Gallery Out of Home Media Ltd and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Group suffered a significant decrease in 2009 revenue as compared to 2008, recognised an impairment loss in the amount of $88,422 for the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by $147,920. These conditions, along with current default under Senior Secured Notes and the Group's dependence on restructuring of its financial liabilities, described in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLC

30 April 2010

Gallery Out of Home Media Ltd.

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Gallery Out of Home Media Ltd.

Consolidated Financial Statements

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Gallery Out of Home Media Ltd.

Consolidated Balance Sheet

as at 31 December 2009

(*in thousands of US dollars*)

	Notes	31 December 2009	31 December 2008
Assets			
Non-current assets			
Intangible assets	8	$ 89,573	$ 159,221
Property and equipment	7	31,249	61,458
Advances issued	10	3,800	9,507
Total non-current assets		**124,622**	**230,186**
Current assets			
Trade and other receivables	11	16,022	20,003
Advances issued and prepaid expenses	10	13,763	8,700
Inventory		1,088	715
VAT receivable		200	220
Other current assets		3,832	2,206
Cash and cash equivalents	12	28,714	36,111
		63,619	**67,955**
Non-current assets classified as held for sale	5	–	4,271
Total current assets		**63,619**	**72,226**
Total assets		**$ 188,241**	**$ 302,412**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital		$ 128	$ 128
Additional paid-in capital		107,404	107,404
Accumulated deficit		(259,029)	(141,244)
Foreign currency translation		(19,858)	(20,472)
Total equity		**(171,355)**	**(54,184)**
Liabilities			
Non-current liabilities			
Loans and borrowings	14	135,404	272,144
Deferred income tax liabilities	21	12,653	32,261
Finance lease obligations	15	–	2,225
Other non-current liabilities		–	185
Total non-current liabilities		**148,057**	**306,815**
Current liabilities			
Trade and other payables	16	14,399	17,954
Deferred revenues and advances from customers		13,982	16,915
Put option liability	25	4,000	4,000
Taxes payable	17	4,232	3,453
Loans and borrowings	14	174,808	2,127
Current portion of finance lease obligations	15	22	2,154
Other current liabilities		96	52
		211,539	**46,655**
Liabilities directly associated with assets classified as held for sale	5	–	3,126
Total current liabilities		**211,539**	**49,781**
Total equity and liabilities		**$ 188,241**	**$ 302,412**

The accompanying notes are an integral part of the Consolidated Financial Statements

Gallery Out of Home Media Ltd.

Consolidated Statement of Operations

for the year ended 31 December 2009

(*in thousands of US dollars*)

	Notes	For the year ended 31 December 2009	For the year ended 31 December 2008 (as reclassified, Note 2)
Revenues		$ 105,479	$ 213,193
Cost of revenues	18	(76,093)	(122,287)
Gross profit		**29,386**	**90,906**
Selling, general and administrative expenses	19	(33,419)	(50,297)
Imputed tax		–	(7,479)
Loss on disposal of property and equipment		(2,180)	(3,785)
Gain/(loss) on disposal of subsidiaries	5	566	(2,068)
Impairment loss	9	(88,422)	(91,839)
Finance income	20	801	12,557
Finance costs	20	(36,127)	(38,423)
Net foreign exchange loss		(6,149)	(32,095)
Excess fair value of net assets acquired over purchase consideration		–	(380)
Other operating income		739	980
Loss before income tax		**(134,805)**	**(121,923)**
Income tax benefit/(expense)	21	17,020	(34,289)
Net loss for the period		**$ (117,785)**	**$ (156,212)**
Attributable to:			
Equity holders of the parent		(117,785)	(156,830)
Minority interests		–	618
		$ (117,785)	**$ (156,212)**

The accompanying notes are an integral part of the Consolidated Financial Statements

Gallery Out of Home Media Ltd.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

(*in thousands of US dollars*)

	For the year ended 31 December 2009	2008
Net loss for the period	**$ (117,785)**	**$ (156,212)**
Exchange differences on translation of foreign currencies	614	(35,931)
Other comprehensive income/(loss) for the period, net of tax	**614**	**(35,931)**
Total comprehensive (loss) for the period, net of tax	**$ (117,171)**	**$ (192,143)**
Attributable to:		
Equity holders of the parent	(117,171)	(192,761)
Minority interests	–	618
	$ (117,171)	**$ (192,143)**

The accompanying notes are an integral part of the Consolidated Financial Statements

Gallery Out of Home Media Ltd.

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

(*in thousands of US dollars*)

	Notes	For the year ended 31 December 2009	2008
Cash flows from operating activities			
(Loss)/profit before income tax expense		$ (134,805)	$ (121,923)
Adjustments for:			
Imputed tax		–	7,479
Depreciation of property and equipment	18,19	10,722	14,190
Amortization of intangible assets and other assets	19	3,983	4,508
Excess fair value of net assets acquired over purchase consideration		–	380
Finance income	20	(801)	(12,557)
Finance costs	20	36,127	38,423
Bad debt expense	11	1,472	4,375
Loss on disposal of property and equipment	7	2,180	3,785
(Gain)/loss on disposal of subsidiaries	5	(566)	2,068
Impairment loss	9	88,422	91,839
Net foreign exchange loss		6,149	32,095
Changes in operating assets and liabilities:			
Change in trade and other receivables		1,938	(9,690)
Change in other assets		(2,082)	(427)
Change in advances issued and prepaid expenses		6,229	(984)
Change in trade and other payables		(2,827)	2,023
Change in deferred revenues and advances from customers		(2,450)	(464)
Change in taxes payable, other than income tax		2,531	(196)
Cash generated from operations		**16,222**	**54,924**
Income taxes paid		(1,275)	(4,276)
Imputed tax paid		(1,639)	(6,858)
Interest paid		–	(17,525)
Interest received		592	617
Net cash flows from operating activities		**13,900**	**26,882**
Cash flows from investing activities			
Payments for property, equipment and other assets		(7,090)	(30,473)
Proceeds from sale of subsidiaries, net of transaction costs	5	1,152	17,248
Proceeds from disposal of property and equipment		17	3,914
Payment for exercise put option	5	–	(780)
Net cash flows used in investing activities		**(5,921)**	**(10,091)**
Cash flows from financing activities			
Purchase of Senior Secured Notes		–	(5,899)
Payments under finance leases	15	(4,878)	(3,826)
Payments for restructuring	10	(9,836)	–
Dividends paid to minority interests		–	(125)
Repayment of borrowings		–	(1,581)
Proceeds from borrowings (net of finance charge)		–	1,312
Net cash flows used in financing activities		**(14,714)**	**(10,119)**
Effect of exchange rate changes on cash & cash equivalents		(625)	(2,959)
Net increase in cash and cash equivalents		**(7,360)**	**3,713**
Cash and cash equivalents at 1 January	12	**36,074**	**32,361**
Cash and cash equivalents at 31 December	12	**$ 28,714**	**$ 36,074**

The accompanying notes are an integral part of the Consolidated Financial Statements

Gallery Out of Home Media Ltd.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

(*in thousands of US dollars*)

	Attributable to equity holders of the parent						
	Share capital	Additional paid-in capital	Accumulated (deficit)/ profit	Foreign currency translation	Total	Minority interests	Total Equity
Balance as at 31 December 2007	**$ 128**	**$ 107,404**	**$ 18,679**	**$ 15,459**	**$ 141,670**	**$ 526**	**$ 142,196**
Net loss for the period	–	–	(156,830)	–	(156,830)	618	(156,212)
Other comprehensive income	–	–	–	(35,931)	(35,931)	–	(35,931)
Total comprehensive income	–	–	(156,830)	(35,931)	(192,761)	618	(192,143)
Dividends paid to minority shareholders	–	–	–	–	–	(125)	(125)
Derecognition of minority interest	–	–	–	–	–	(160)	(160)
Acquisition of minority interest	–	–	(3,093)	–	(3,093)	(859)	(3,952)
Balance as at 31 December 2008	**$ 128**	**$ 107,404**	**$ (141,244)**	**$ (20,472)**	**$ (54,184)**	**$ –**	**$ (54,184)**
Net loss for the perid	–	–	(117,785)	–	(117,785)	–	(117,785)
Other comprehensive income	–	–	–	614	614	–	614
Total comprehensive income	–	–	(117,785)	614	(117,171)	–	(117,171)
Balance as at 31 December 2009	**$ 128**	**$ 107,404**	**$ (259,029)**	**$ (19,858)**	**$ (171,355)**	**$ –**	**$ (171,355)**

The accompanying notes are an integral part of the Consolidated Financial Statements

(in thousands of US dollars)

1. Corporate Information

These consolidated financial statements include the financial statements of Gallery Out of Home Media Ltd. and its subsidiaries (together referred to as the "Company" or the "Group").

The parent company, Gallery Out of Home Media Ltd., is an international business corporation registered under the laws of the British Virgin Islands on 14 June 2007. The registered address of Gallery Out of Home Media Ltd. is at the premises of Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands.

The principal activities of the Group are described in Note 6.

The principal subsidiaries consolidated within the Group, and the share of voting interest held by the Group, are as follows:

Name of company	Country of incorporation	Nature of business	2008 ownership	2007 ownership
Gallery Media Group Ltd.	BVI	Holding Company	100%	100%
Gallery Capital S.A	Luxemburg	Special Purpose Entity – Issuer of Senior Secured Notes	0%	0%
Gallery Service LLC	Russia	Operating Company	100%	100%
Westdia Media LLC	Russia	Operating Company	100%	100%
Westdia Media Technik LLC	Russia	Operating Company	100%	100%
Octagon Outdoor LLC	Ukraine	Operating Company	100%	100%

The consolidated financial statements of the Group were authorized for issue by the Group's management on 30 April 2010.

2. Basis of Preparation and Accounting Policies

Statement of Compliance

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

2. Basis of Preparation and Accounting Policies (continued)

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. The Group's activities have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. In the fourth quarter of 2008, the willingness of financial institutions to extend committed finance on a long-term basis was reduced significantly. At the same time, the recession affected the outdoor advertising market and the Group experienced weaker demand for its services. As a result, the Group suffered a significant decrease in 2009 revenue as compared to 2008.

The impairment test of the Group's non-current assets performed, based on the most recent budgets approved by management, indicated that the carrying value of the Group's assets is not fully recoverable and an impairment loss of $88,422 has been recognized in the consolidated statement of operations (Note 9). As a result, negative net assets of the Group increased to the amount of $171,355.

At 31 December 2009, the Group's current assets were $63,619, including cash in the amount of $28,714.

The Group manages its capital structure and makes adjustments to it considering changes in economic conditions. In light of the current market conditions, the Group determined in May 2009 that it would be in the interests of the Group as well as its creditors to pursue a broadly consensual financial, debt and capital restructuring in order to provide the Group with a sustainable capital structure allowing it to continue normal operations despite the ongoing difficulties in the outdoor advertising market.

On 15 May 2009, the Group determined to postpone the interest payment due on that day and initiated restructuring negotiations with the holders of its Senior Secured Notes. The non-payment of that interest led to an event of default under the Senior Secured Notes indenture and reclassification of the related carrying value of these notes from non-current loans and borrowings to current. As a result, negative net current assets of the Group amounted to $147,920 as of 31 December 2009.

On 6 October 2009, the Group reached an agreement with an ad hoc committee (the "Ad Hoc Committee"), representing in excess of 76% of holders of the Senior Secured Notes, to restructure its financial liabilities.

Under the terms of the agreement, the Group's Senior Secured Notes will be reduced to $95 million ("New Notes"). Current holders of $161,490 face value of the Senior Secured Notes will, following the completion of the restructuring, own 70% of the equity in a new company ("Newco"), which will hold the assets of the New Group. Gallery Out Of Home Media Ltd. and the intermediary holding company, Gallery Media Group Ltd., will be left outside the New Group.

2. Basis of Preparation and Accounting Policies (continued)

Going Concern (continued)

The New Notes will have a 10% annual interest rate (to be paid in cash or accrued into the principal amount at the discretion of the Group in year 1 and paid in cash quarterly thereafter) and a 5 year term.

Two existing shareholders of the Group will invest $5 million in Newco and provide ongoing support to the New Group in return for 30% of the equity of Newco and $9.5 million of the New Notes.

The restructuring will be effected through a consensual restructuring by way of a scheme of arrangement in the English courts in respect of each of Gallery Media Group Ltd. and Gallery Capital S.A.

Though the Group's ability to continue as a going concern is dependent on the successful completion of the restructuring, management believes that despite the current uncertain economic situation, the restructuring will be completed before the end of 2010 and the Group will continue its operations as the New Group for the foreseeable future. Dependence on the successful completion of the restructuring creates a material uncertainty regarding the Group's ability to continue as a going concern and, therefore, its ability to realize its assets and discharge its liabilities in the normal course of business.

Basis of Accounting

The Group companies maintain their records and prepare their financial statements in their functional currency. The functional currency of the Group's Russian subsidiaries is the Russian ruble (RUB). The functional currency of the Group's Ukrainian subsidiaries is the hryvnia (UAH), and the functional currency of the overseas subsidiaries is the US Dollar (USD). The consolidated financial statements are presented in US dollars for the convenience of the users and all values are rounded to the nearest thousand except when otherwise indicated.

These consolidated financial statements differ from the financial statements issued for statutory purposes in Russia and Ukraine in that they reflect certain adjustments, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

These consolidated financial statements have been prepared on a historical cost basis.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Gallery Out of Home Media Ltd. and its subsidiaries as at 31 December 2009.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

2. Basis of Preparation and Accounting Policies (continued)

Basis of Consolidation (continued)

All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Reclassifications

Certain reclassifications have been made to the 2008 statement of operations to conform to the presentation as of and for the year ended 31 December 2009. In the prior year consolidated financial statements, revenue from social advertising was shown on a net basis in the cost of revenues line of the statement of operations. For the purposes of comparative information presented in these consolidated financial statements, revenues for 2008 as well as city fees and permits (included in the cost of revenues line) were grossed up in the amount of $1,150.

3. Summary of Significant Accounting Polices

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of new Standards and Interpretations as of 1 January 2009, noted below:

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of operations in the separate financial statements. The new requirements affect only separate financial statements and do not have any impact on the consolidated financial statements.

IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

3. Summary of Significant Accounting Polices (continued)

Changes in Accounting Policies (continued)

IFRS 7 *Financial Instruments: Disclosures*
The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in Note 25, and the liquidity risk disclosures are not significantly impacted by the amendments.

IAS 1 *Revised Presentation of Financial Statements*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 *Borrowing Costs (Revised)*
The standard has been revised to require capitalization of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. The Group has not purchased or constructed any long-term fixed asset items which are designated as qualifying assets, thus the amendment had no impact on the Group's financial position or performance.

IAS 32 *Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 13 *Customer Loyalty Programs*
This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Group does not maintain loyalty programs. Therefore, the adoption of this interpretation did not have any impact on the financial position or performance of the Group.

3. Summary of Significant Accounting Polices (continued)

Changes in Accounting Policies (continued)

IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The Group has no embedded derivatives, thus the adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 15 *Agreement for the Construction of Real Estate*

This interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 did not have an impact on the consolidated financial statements because the Group does not conduct such activity.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

This interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. As the Group did not dispose of any net investment it has had no impact on the financial position or results.

IFRIC 18 *Transfer of Assets from Customers*

This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both.

3. Summary of Significant Accounting Polices (continued)

Changes in Accounting Policies (continued)

Improvements to IFRSs
In May 2008, the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IAS 1 *Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analyzed whether Management's expectation of the period of realization of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

- IAS 16 *Property, Plant and Equipment*: Replace the term "net selling price" with "fair value less costs to sell." The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

- IAS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

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

3. Summary of Significant Accounting Polices (continued)

Changes in Accounting Policies (continued)

IAS 1 *Presentation of Financial Statements*
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
IFRS 7 *Financial Instruments: Disclosures*
IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*
IAS 10 *Events after the Reporting Period*
IAS 16 *Property, Plant and Equipment*
IAS 18 *Revenue*
IAS 19 *Employee Benefits*
IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*
IAS 27 *Consolidated and Separate Financial Statements*
IAS *28 Investment in Associates*
IAS 31 *Interest in Joint Ventures*
IAS 34 *Interim Financial Reporting*
IAS 36 *Impairment of Assets*
IAS 39 Financial *Instruments: Recognition and Measurement*

Standards Issued But Not yet Effective

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

IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters* (effective for annual periods beginning on or after 1 January 2010);
IFRS 2R *Share-based Payment - Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2010);
IFRS 3R *Business Combinations* and IAS 27R *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009);
IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013);
IAS 24R *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011);
IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 February 2010);
IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009);
IFRIC 14/IAS 19 *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011);
IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009);
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010);
Improvements to IFRSs, April 2009 (separate transitional provisions for each standard).

3. Summary of Significant Accounting Polices (continued)

Standards Issued But Not yet Effective (continued)

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application. The Group will adopt the pronouncements listed above in the period when they become effective.

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of operations.

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

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.

Non-Current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probably and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated/amortized.

3. Summary of Significant Accounting Polices (continued)

Foreign Currency Transactions

The consolidated financial statements are presented in US dollars, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency. The functional currency of the Group's Russian subsidiaries is the Russian ruble (RUR). The functional currency of the Group's Ukrainian subsidiaries is the hryvnia (UAH), and the functional currency of the overseas subsidiaries is the US Dollar (USD).

Transactions in foreign currencies are initially recorded in the entity's functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. 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.

As at the reporting date, the assets and liabilities of the Group's subsidiaries are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their statement of operations is translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

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. The Group earns revenues by displaying advertising materials on billboards and advertising structures that are owned by the Group as well as on billboards that are subcontracted from third parties. Revenues earned and subcontractor fees incurred from advertisements displayed on subcontracted billboards are recognized on a gross basis in the consolidated statement of operations as all risks and rewards related to these sales transactions are borne by the Group. Revenue from advertising services displayed both on the Group's owned and subcontracted billboards and advertising structures is recognized over the period the advertising is displayed. Revenues related to new one year contracts for directional signs are prepaid by clients and initially recorded as deferred revenues. These revenues are amortized straight-line over the 12 month contract period.

3. Summary of Significant Accounting Polices (continued)

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is 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.

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives 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 treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of operations in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment in value. The cost of an item of property and equipment includes all directly attributable costs to bring the asset to working condition for its intended use. Such cost also includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalized. Items of property and equipment that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations.

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

	Years
Billboards and other advertising structures, excluding directional signs	5-10
Directional signs	2
Computers	5
Other	5

3. Summary of Significant Accounting Polices (continued)

Property and Equipment (continued)

Depreciation is charged from the month the asset is put into use and until the month of disposal. Construction in progress is depreciated once the asset is put into operation.

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

Borrowing Costs

Borrowing costs are recognized as an expense when incurred.

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 such 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 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 or other available fair value indicators.

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 makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 consolidated statement of operations.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and when circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill and indefinite lived assets as at 31 December.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognized.

Impairment losses relating to goodwill cannot be reversed in future periods.

3. Summary of Significant Accounting Polices (continued)

Financial Assets

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

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.

The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets comprise primarily cash and cash equivalents and trade and other receivables. The Group's receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of operations when the receivables are derecognized or impaired, as well as through the amortization process.

Financial Liabilities

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.

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

The Group determines the classification of its financial liabilities at initial recognition.

The Group's financial liabilities comprise primarily loans and borrowings and trade and other payables.

Interest Bearing Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of operations when the liabilities are derecognized as well as through the amortization process.

3. Summary of Significant Accounting Polices (continued)

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable 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.

Fair Value of Financial Instruments

The fair value of financial instruments where there is no active market is determined using 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.

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Derecognition of Financial Liabilities

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the 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.

3. Summary of Significant Accounting Polices (continued)

Leases (continued)

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 recognized in the consolidated 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 consolidated statement of operations on a straight-line basis over the lease term.

Inventories

Inventories are valued at the lower of cost and net realizable value. The Group's inventories consist primarily of materials for the production of direction signs as well as supplies for the ordinary maintenance of advertising structures. These supplies are accounted for at cost on a first in, first out basis.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed.

3. Summary of Significant Accounting Polices (continued)

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. The expense relating to any provision is presented in the consolidated statement of operations net of any reimbursement.

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 finance cost.

Employee Benefits

State Pension Scheme

In the normal course of business, the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Taxes

Imputed Tax

Starting from 2005, activity in relation to the placement of outdoor advertising in Russia has been added to the list of activities for which the special tax regime of Unified Tax on Imputed Income (hereinafter referred as "imputed tax") should be applied. Imputed tax is assessed based on the number of advertising faces a company owns, as contrasted with revenues generated by its outdoor advertising business. From 1 January 2005, the Group started to apply the imputed tax regime in the regions where the related local law was adopted. The imputed tax regime was not introduced only in 5 regions, with respect to which the general taxation system was applied by the Group.

On 22 July 2008, the Russian government implemented federal law #155, which clarified the criteria for the eligibility for companies to use the imputed tax regime. Due to these clarifications, beginning 1 January 2009, the Group moved back to the general tax regime under which the Group is subject to a 20% tax on profits and is required to collect 18% value added tax on its advertising revenues.

Outdoor advertising in Ukraine is taxed under the general profit taxation system.
The Group's move back to the general taxation system in Russia according to the new legislative requirements effective 1 January 2009.

3. Summary of Significant Accounting Polices (continued)

Taxes (continued)

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Value Added Tax

The Russian tax legislation permits the settlement of sales and purchases 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 balance sheet 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 Receivable

VAT receivable arises when VAT related to purchases exceeds VAT related to sales.

Deferred Income Taxes

Deferred income tax is provided using the balance sheet method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Summary of Significant Accounting Polices (continued)

Taxes (continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- ► where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition 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; and
- ► in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares 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 additional paid-in capital.

3. Summary of Significant Accounting Polices (continued)

Equity (continued)

Minority Interests and Net Assets Attributable to Minority Participants

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of operations and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Any difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognized directly in equity.

Losses allocated to minority interest do not exceed the minority interest in shareholders' equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such excess losses are allocated to the Group.

In accordance with Russian legislation, participants in limited liability companies ("LLCs) may unilaterally withdraw from the company. In such cases, the Group will be obliged to pay the withdrawing participant's share of net assets of the company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by an in kind transfer of assets. Based on the provisions of the law determining the exit period, the net assets attributable to the minority participants are presented within non-current liabilities.

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Classification of Lease Agreements

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or if at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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:

Useful Life of Property and Equipment and Intangible Assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year end. These estimates may have a material impact on the amount of the carrying values of property and equipment and intangible assets and on depreciation and amortization recognized in the consolidated statement of operations.

4. Significant Accounting Judgments, Estimates and Assumptions

Estimates and Assumptions (continued)

As part of this assessment, in accordance with IAS 38 *Intangible Assets,* the Group assess whether the useful lives of its intangible assets are definite or indefinite. Indefinite lived intangible assets consist of licenses and permits acquired through business combinations. The cost of these intangibles equals their fair value as of the date of acquisition measured by discounting their estimated future cash flows. These permits and licenses have been granted by the relevant municipalities for periods ranging from one to seven years. Based on prior history and current international market practices, management expects to be able to renew these licenses for an indefinite period of time at an insignificant cost. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite lived intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in Note 9.

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 the 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.

Allowance for Doubtful Accounts

Management maintains an allowance for doubtful accounts 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 aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

4. Significant Accounting Judgments, Estimates and Assumptions

Estimates and Assumptions (continued)

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 23.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that of 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 an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in the consolidated statement of operations.

5. Business Combinations, Acquisitions of Minority Interests and Disposals of Subsidiaries

Disposals of Subsidiaries and Assets Held for Sale in 2009

During the fourth quarter of 2008, the Group's management and Board of Directors decided to sell four subsidiaries: IMTV, Gallery Digital, Transreklama and Stimul Group. As of 31 December 2008, the Group determined that the $6,823 carrying value of these subsidiaries, which includes $2,267 in property and equipment, $5,895 in intangibles, $1,787 in other current assets and $3,126 in short-term liabilities, exceed the fair value less costs to sell by $5,678. The resulting impairment loss was recognized in the consolidated statement of operations for the year ended 31 December 2008.

On 20 January 2009, the Group completed the sale of Transreklama Almaz Advertising Limited LLC for cash consideration of $486, which resulted in an additional loss of $8 on the disposal of this entity, recorded as held for sale as of 31 December 2008. At the date of disposal Transreklama had no cash at balance, total assets of Transreklama was equal to $798 and total liabilities equal to $304.

5. Business Combinations, Acquisitions of Minority Interests and Disposals of Subsidiaries (continued)

Disposals of Subsidiaries and Assets Held for Sale in 2009 (continued)

On 17 March 2009, the Group completed the sale of Stimul Group LLC for cash consideration of $502. This sale resulted in a gain of $92. At the date of disposal Stimul Group LLC had $7 in cash, total assets amounting to $431 and total liabilities equal to $21.

On 30 March 2009, the Group sold ADV Technology LLC, a small outdoor operator in Barnaul, for cash consideration of $90, resulting in a loss of $78. At the date of disposal ADV Technology LLC had no cash, total assets were equal to $333 and total liabilities equal to $165.

On 2 April 2009, the Group sold Gallery Indoor-Neva LLC, a small St. Petersburg operator, for the nominal value of its shares, which resulted in a loss of $270. At the date of disposal Gallery Indoor-Neva LLC had $1 in cash, total assets amounting to $519 and total liabilities equal to $249.

On 20 April 2009, the Group sold IMTV, a company that specializes in indoor digital advertising in Moscow, for the nominal value of shares, which resulted in a gain of $352. At the date of disposal IMTV had $197 in cash, total assets amounting to $823 and total liabilities equal to $1,175.

On 23 April 2009, the Group sold Gallery Digital CJSC for the nominal value of shares, resulting in a gain of $57. At the date of disposal Gallery Digital CJSC had $180 in cash, total assets amounting to $1,694 and total liabilities equal to $1,751.

On 26 May 2009, the Group sold its 51% holding in Gallery Vologda LLC, a small outdoor operator in Vologda, for the nominal value of its shares, resulting in a gain of $4. At the date of disposal Gallery Vologda LLC had no cash, total assets were equal to $14 and total liabilities equal to $18.

Acquisitions of Minority Interests in 2008

On 31 October 2008, the Group entered into a revised Shareholder Agreement related to the ultimate ownership of Larisa City, of which the Group owns a 50.1% interest. This revised agreement provides for both a put and call option over the remaining 49.9% ownership interest. The exercise price of the option is dependent upon Larisa City's future earnings, but the agreement stipulates that the price may not be less than $4,000. As of 31 December 2008, the fair value of the financial liability under the put option was $4,000. The $3,093 difference between the value of this put option liability and the carrying amount of the minority interest as of the agreement date was recognized directly in equity.

5. Business Combinations, Acquisitions of Minority Interests and Disposals of Subsidiaries (continued)

Disposals in 2008

On 8 August 2008, the Group sold its 100% interest in PVG Media LLC for $212, resulting in a net loss on disposal of $1,915. As of the date of the sale, the carrying value of PVG was $2,127, which included $37 in cash, $734 in property and equipment, $117 in intangible assets, $1,961 in other current assets and $722 in short-term liabilities.

In November 2009, the Group recognized a gain of $417 after receiving an additional portion of the agreed upon purchase price for PVG Media LLC that was previously written off as unrecoverable in 2008, resulting in a gain of $417 in 2009.

6. Segment Information

For management purposes, the Group is organized into business units based upon the economic environment in which the outdoor advertising services are being provided, and thus the Group has two reportable operating segments:

- The Russian segment provides outdoor advertising services to advertising agencies and direct clients throughout Russia.
- The Ukrainian segment provides outdoor advertising services to advertising agencies and direct clients throughout Ukraine.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to the operating segments.

(in thousands of US dollars)

6. Segment Information

The following tables present revenue and net profit information regarding the Group's operating segments for the year ended 31 December 2009 and 2008.

Year ended 31 December 2009	Russia	Ukraine	Adjustments and eliminations	Consolidated
Revenues:				
Billboards	$ 37,119	$ 3,339	$ –	$ 40,458
Street furniture	25,533	831	–	26,364
Transport and other	19,946	675	–	20,621
Media buying	15,495	2,541	–	18,036
Total revenues	**$ 98,093**	**$ 7,386**	**$ –**	**$ 105,479**
Results				
Depreciation	10,706	16	–	10,722
Amortization	3,931	52	–	3,983
Impairment	88,422	–	–	88,422
Income tax expense/(benefit)	17,022	(2)	–	17,020
Segment profit	**(74,617)**	**(1,693)**	**(41,475)[1]**	**(117,785)**
Assets				
Capital expenditures (property & equipment)	8,037	230	–	8,267
Capital expenditures (intangible assets)	37	6	–	43
Operating assets	**186,527**	**1,714**	**–**	**188,241**
Operating liabilities	**$ 47,202**	**$ 2,183**	**$ 310,211[2]**	**$ 359,596**

Year ended 31 December 2008	Russia	Ukraine	Adjustments and eliminations	Consolidated
Revenues:				
Billboards	$ 79,412	$ 11,398	$ –	$ 90,810
Street furniture	41,605	4,620	–	46,225
Transport and other	42,144	2,805	–	44,949
Media buying	20,467	9,592	–	30,059
Revenues	**$ 183,628**	**$ 28,415**	**$ –**	**$ 212,043**
Results				
Depreciation	12,494	1,696	–	14,190
Amortization	3,634	874	–	4,508
Impairment	51,331	40,508	–	91,839
Income tax expense/(benefit)	38,135	(3,846)	–	34,289
Segment profit	**(66,258)**	**(31,993)**	**(57,961)[1]**	**(156,212)**
Assets				
Capital expenditures (property & equipment)	21,677	7,793	–	29,470
Capital expenditures (intangible assets)	171	–	–	171
Operating assets	**299,302**	**3,110**	**–**	**302,412**
Operating liabilities	**$ 76,878**	**$ 5,447**	**$ 274,271[2]**	**$ 356,596**

(in thousands of US dollars)

6. Segment Information (continued)

1. Profit for each reportable segment excludes finance income (2009: $801, 2008: $12,557), finance costs (2009: $36,127, 2008: $38,423) and net foreign exchange gain/(loss) (2009: ($6,149), 2008: ($32,095) as financing activity is managed on a group basis.

2. Segment liabilities do not include loans and borrowings as they are managed on a group basis.

7. Property and Equipment

Property and equipment and related accumulated depreciation and impairment consist of the following as of 31 December:

	Billboards and other advertising structures	Computers	Other	Assets under construction	Total
Cost					
Balance at 31 December 2007	**$ 82,455**	**$ 2,821**	**$ 8,029**	**$ 8,595**	**$ 101,900**
Additions	–	376	1,304	27,658	29,338
Assets put into operation	27,470	–	–	(27,470)	–
Disposals	(8,262)	(847)	(532)	(648)	(10,289)
Transfer of assets held for sale	(1,351)	(24)	–	(1,422)	(2,797)
Translation difference	(19,817)	(409)	(1,487)	(1,517)	(23,230)
Balance at 31 December 2008 restated	**$ 80,495**	**$ 1,917**	**$ 7,314**	**$ 5,196**	**$ 94,922**
Additions	–	–	–	8,267	8,267
Assets put into operation	5,386	56	2,918	(8,360)	–
Disposals	(3,318)	(392)	(622)	(714)	(5,046)
Translation difference	(1,831)	(68)	(89)	(425)	(2,413)
Balance at 31 December 2009	**$ 80,732**	**$ 1,513**	**$ 9,521**	**$ 3,964**	**$ 95,730**

(in thousands of US dollars)

7. Property and Equipment (continued)

	Billboards and other advertising structures	Computers	Other	Assets under construction	Total
Accumulated depreciation and impairment					
Balance at 31 December 2007	**$ (12,419)**	**$ (764)**	**$ (1,443)**	**$ –**	**$ (14,626)**
Depreciation charge	(11,896)	(230)	(2,064)	–	(14,190)
Transfer of assets held for sale	900	73	274	–	1,247
Impairment (Note 9)	530	1	–	–	531
Disposals	(11,026)	(64)	(136)	(95)	(11,321)
Translation difference	4,220	154	521	–	4,895
Balance at 31 December 2008	**$ (29,691)**	**$ (830)**	**$ (2,848)**	**$ (95)**	**$ (33,464)**
Depreciation charge	(9,275)	(316)	(1,418)	–	(11,009)
Disposals	1,453	231	333	–	2,017
Impairment (Note 9)	(17,985)	(256)	(2,338)	(1,592)	(22,171)
Translation difference	106	17	23	–	146
Balance at 31 December 2009	**$ (55,392)**	**$ (1,154)**	**$ (6,248)**	**$ (1,687)**	**$ (64,481)**
Net book value:					
Balance at 31 December 2008	$ 50,804	$ 1,087	$ 4,466	$ 5,101	$ 61,458
Balance at 31 December 2009	**$ 25,340**	**$ 359**	**$ 3,273**	**$ 2,277**	**$ 31,249**

In 2009 and 2008 the Group did not enter into any new finance lease agreements. All significant lease liabilities were repaid by the Group in full in 2009.

8. Intangible Assets

	Goodwill	Licenses and permits (indefinite useful life)	Licenses and permits (definite useful life)	Other	Total
Cost					
Balance at 31 December 2007	**$ 77,226**	**$ 209,962**	**$ 7,560**	**$ 788**	**$ 295,536**
Additions	–	–	–	171	171
Disposals	–	(111)	–	–	(111)
Transfer of assets held for sale	(1,972)	(3,923)	–	(1)	(5,896)
Translation difference	(16,338)	(38,191)	(1,244)	(43)	(55,816)
Balance at 31 December 2008	**$ 58,916**	**$ 167,737**	**$ 6,316**	**$ 915**	**$ 233,884**
Additions	–	–	–	43	43
Disposals	–		–	–	–
Translation difference	–	(4,791)	(180)	(24)	(4,995)
Balance at 31 December 2009	**$ 58,916**	**$ 162,946**	**$ 6,136**	**$ 934**	**$ 228,932**

(in thousands of US dollars)

8. Intangible Assets (continued)

	Goodwill	Licenses and permits (indefinite useful life)	Licenses and permits (definite useful life)	Other	Total
Accumulated Amortization and Impairment					
Balance at 31 December 2007	**$ –**	**$ –**	**$ (946)**	**$ (224)**	**$ (1,170)**
Amortization expense	–	–	(1,486)	(119)	(1,605)
Impairment (Note 9)	(58,916)	(13,367)	–	–	(72,283)
Translation difference	–	–	384	11	395
Balance at 31 December 2008	**$ (58,916)**	**$ (13,367)**	**$ (2,048)**	**$ (332)**	**$ (74,663)**
Amortization expense	–	–	(1,299)	(218)	(1,517)
Impairment (Note 9)	–	(62,240)	(1,155)	(159)	(63,554)
Translation difference	–	382	(5)	(2)	375
Balance at 31 December 2009	**$ (58,916)**	**$ (75,225)**	**$ (4,507)**	**$ (711)**	**$ (139,359)**
Net book value:					
Balance at 31 December 2008	$ –	$ 154,370	$ 4,268	$ 583	$ 159,221
Balance at 31 December 2009	**$ –**	**$ 87,721**	**$ 1,629**	**$ 223**	**$ 89,573**

Indefinite lived licenses and permits include intangible assets acquired through business combinations. The cost of these intangibles equals their fair value as of the date of acquisition measured by discounting their estimated future net cash flows. These permits and licenses have been granted by the relevant government municipalities for periods ranging from one to seven years. Based on prior history and current international market practices, management expects to be able to renew these licenses for an indefinite period of time. As at 31 December 2009 and 2008, these assets were tested for impairment (Note 9).

Definite lived intangible assets include the cost of tenders won from municipalities that allow the Group to enter into rent agreements with the city to install advertising structures as well a customer relationships intangible asset that was identified and valued as part of the Westdia acquisition. These tenders typically cover a period ranging from three to five years, and the cost of the tender won is amortized over the life of the rent agreement from the date the assets are installed and the permits received. The customer relationships intangible asset was valued at $941 and is being amortized on a straight-line basis over 10 years from the date of acquisition.

(in thousands of US dollars)

9. Impairment Testing

Licenses and permits with indefinite lives have been allocated to two cash-generating units, which are also reporting segments, for impairment testing as follows:

- ► Russia; and
- ► Ukraine.

Carrying amounts of indefinite lived licenses and permits for each of the cash-generating units comprise the following as at 31 December:

	Russia		**Ukraine**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Carrying amount of licenses and permits with indefinite lives	87,721	154,370	–	–	87,721	154,370

Due to the effects of the global financial crisis, which has decreased the demand for outdoor advertising, the carrying amount of the Russian CGU exceeded its estimated value in use as of 31 December 2009. As a result, the Group recorded an impairment loss of $88,422 in Russia which consists of an impairment of $22,172 in property and equipment, $63,555 in intangible assets and $2,695 in long-term advances.

As a result of impairment testing as of 31 December 2008, the Group recorded an impairment loss of $45,653 in Russia relating to goodwill, and an impairment loss of $40,508 in Ukraine, which consists of an impairment of $11,321 in property and equipment, $13,263 in goodwill, $13,367 in intangible assets and $2,557 in long-term advances.

<u>Russia cash-generating unit</u>

The recoverable amount of the Russian unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management for 2010 and projected growth rates for the subsequent four years. The pre-tax discount rate applied to cash flow projections is 17.5% (2008: 21%) and cash flows beyond the five-year period are extrapolated using a 2.6% growth rate (2008: 4%).

<u>Key assumptions used in the value in use calculations</u>

The calculations of value in use is most sensitive to the following assumptions:

- ► Occupancy rates;
- ► Average advertising placement prices;
- ► Discount rates;
- ► Growth rate estimates.

Occupancy rates – Occupancy rates are based on the Group's current market experience, industry forecasts as well as financial budgets approved by senior management.

(in thousands of US dollars)

9. Impairment Testing (continued)

Average advertising placement prices – Average advertising placement prices are derived from sales budgets approved by senior management. The price inflation rate is used to consider price growth in future years.

Discount rates – Discount rates reflect management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The discount rate was estimated based on the average percentage of a weighted average cost of capital in the advertising industry.

Growth rate estimates (prices, direct costs and indirect costs growth rates) – Growth rates related to prices, direct and indirect costs are based on industry research and used by senior management in long-term financial budgeting.

Sensitivity to changes in assumptions

As the Russian segment has been written down to its current value in use as of 31 December 2009, a change in any of the above key assumptions could result in further impairment losses.

10. Advances issued and prepaid expenses

Advances issued and prepaid expenses comprise the following as of 31 December:

	2009	2008
Non-current advances paid:		
Advances paid for billboards and advertising structures*	$ 201	$ 2,196
Advances paid for long-term contracts	3,599	7,311
Other non-current advances	–	–
	$ 3,800	**$ 9,507**
Current advances issued and prepaid expenses:		
Advances paid for city fees and permits	$ 1,263	$ 3,379
Advances paid for materials and services	1,168	5,081
Deferred restructuring costs (Note 2)	9,836	–
Other prepaid expenses	1,496	240
	$ 13,763	**$ 8,700**

11. Trade and Other Receivables

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

As at 31 December 2009, trade and other receivables in the amount of $4,126 (2008: $3,103) were impaired and fully provided for.

(in thousands of US dollars)

11. Trade and Other Receivables (continued)

Movements in the allowance for doubtful accounts were as follows:

	Advances issued	Trade and other receivables	Individually impaired
At 31 December 2007	**$ –**	**$ 1,340**	**$ 1,340**
Charge for the year	348	4,027	4,375
Utilized	–	(1,990)	(1,990)
Unused amounts reversed	–	(46)	(46)
Translation difference	(53)	(523)	(576)
At 31 December 2008	**$ 295**	**$ 2,808**	**$ 3,103**
Charge for the year	265	1,882	2,147
Utilized	–	(375)	(375)
Unused amounts reversed	(147)	(528)	(675)
Translation difference	(3)	(71)	(74)
At 31 December 2009	**$ 410**	**$ 3,716**	**$ 4,126**

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Not past due	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	>90 days
2009	$ 16,022	7,262	4,366	1,546	653	2,195
2008	$ 20,003	7,973	4,365	4,059	1,168	2,438

12. Cash and Cash Equivalents

Cash and cash equivalents comprise the following as of 31 December:

	2009	2008
Cash at banks and on hand	$ 4,273	$ 9,324
Short-term bank deposits	24,441	26,787
	$ 28,714	**$ 36,111**

Cash at banks generally earns no interest. Short-term bank deposits are made for periods ranging from one day to three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at of 31 December 2009:

	2009	2008
Cash at banks and on hand	$ 4,273	$ 9,324
Short-term bank deposits	24,441	26,787
	28,714	**36,111**
Bank overdrafts (Note 16)	–	(37)
	$ 28,714	**$ 36,074**

(in thousands of US dollars)

13. Equity

The authorized capital of the Group is $250 consisting of 250,000 ordinary shares with a par value of $1.00 per share. As of 31 December 2009 and 2008, the Group had 128,832 issued and outstanding shares that were fully paid.

14. Interest-Bearing Loans and Borrowings

Loans and borrowings are comprised of the following as of December 31:

	Effective interest rate (%)	**Maturity**	**2009**	**2008**
Short-term borrowings:				
Senior Secured notes	11.6%	On demand	$ 174,807	$ 2,090
Bank overdrafts	18%	On demand	–	–
Other			1	37
			$ 174,808	**$ 2,127**
Long-term borrowings:				
Senior Secured notes	11.6%	15 May 2013	$ –	$ 155,190
PIK Loan	17.6%	15 November 2013	135,389	116,954
Other borrowings			15	–
			$ 135,404	**$ 272,144**

Senior Secured Notes

On 12 May 2006, Gallery Capital S.A (a special purpose entity organized under the laws of Luxemburg, the "Issuer") issued Senior Secured Notes, guaranteed on a senior basis by Gallery Media Group Ltd. and certain of its subsidiaries. The notes bear interest at the rate of 10.125% per annum. Interest on the notes is payable on 15 May and 15 November of each year, beginning on 15 November 2006. The notes will mature on 15 May 2013. The Issuer may redeem some or all of the notes at any time on or after 15 May 2010. In addition, prior to 15 May 2009, the Issuer may redeem up to 35% of the notes from the proceeds of certain equity offerings. Prior to 15 May 2010, the Issuer may also redeem all or part of its notes by paying a "make whole" premium.

On 5 November 2008, the Group purchased the nominal amount of $13,510 of its Senior Secured Notes for a net cost of $5,899.

14. Interest-Bearing Loans and Borrowings

Senior Secured Notes (continued)

On 15 May 2009, the Group announced that, as part of a strategy to pursue a broadly consensual financial, debt and capital restructuring, the Group determined to postpone making the interest payment due on that day. The non-payment of that interest constituted an Event of Default under the Old Notes Indenture if it remained unpaid for a period of 30 days. The last day of that grace period expired on 15 June 2009. As at the date of these financial statements, the Group has not made payment of that interest or any subsequent interest due on the Senior Secured Notes. Accordingly, an Event of Default arose on 15 June 2009 and that Event of Default is continuing. As a result of this Event of Default, the carrying value of the Senior Secured Notes has been classified as a current liability in these consolidated financial statements. See Note 2.

Paid-in-Kind Loan

On 26 July 2007, Gallery Out of Home Media Ltd. entered into a term loan facility agreement ("PIK Loan") with a number of international financial institutions for the total amount of $100,000. The issue price was settled at 0.98. The loan bears interest at 3-month LIBOR plus 11%, stepping up by an additional 200 basis points after 36 months. Interest on the loan is accrued semi-annually on 28 January and 28 July of each year, beginning on 28 January 2008, through the issuance of additional PIK principal amounts equal to the deferred interest amount. The loan has a final maturity on 15 November 2013.

Initially management of the Group planned to repay the loan in July 2009 on receipt of financing from an IPO. On 30 September 2008, due to the current capital markets instability, management of the Group decided to postpone its plans for the IPO and revised its estimate of the PIK loan repayment date until the contractually agreed maturity, i.e.15 November 2013.

On 28 January 2009 and 28 July 2009, deferred interest in the amounts of $8,404 and $7,936 were accrued as additional PIK principal, respectively.

15. Leases

Finance Leases

In the past, the Group entered into finance lease agreements for advertising structures, IT equipment and automobiles with Hansa Leasing, Raiffeisen Leasing LLC and Volkswagen Group Finanz LLC. The lease agreements provide for the transfer of ownership of the leased assets to the Group after the expiration of the lease term.

(in thousands of US dollars)

15. Leases (continued)

Finance Leases (continued)

Future minimum lease payments were as follows as of 31 December:

	Effective interest rate (%)	Maturity	2009 Minimum payments	2009 Present value of payments	2008 Minimum payments	2008 Present value of payments
Not later than one year	13.4 – 19.6%	2009	24	22	2,689	2,154
Later than one year but not more than five years	13.4 – 19.6%	2010-2012	–	–	2,442	2,225
Total minimum lease payments			**24**	**22**	**5,131**	**4,379**
Less: amounts representing future finance charges			(2)		(752)	
Present value of Finance lease obligations			**22**		**4,379**	

Operating Leases

During 2009 and 2008, the Group entered into commercial leases of office and warehouse space in Moscow and regional cities. In 2009, the Group leased approximately 8,043 square meters of office space, including 5,097 square meters in Moscow, and 27,710 square meters of warehouse space, including 22,151 square meters in Moscow.

These leases have an average life of 1 year with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed in Note 24.

16. Trade and Other Payables

Trade and other payables comprised the following as of 31 December:

	2009	2008
Trade payables	$ 10,071	$ 8,163
Other payables	2,624	7,663
Payroll payable	1,704	2,128
Total payables	**$ 14,399**	**$ 17,954**

(in thousands of US dollars)

17. Taxes Payable

Taxes payable comprised the following as of 31 December:

	2009	2008
Imputed tax payable	$ 257	$ 1,942
VAT payable	3,225	401
Income tax payable	320	886
Other	430	224
Total	**$ 4,232**	**$ 3,453**

18. Cost of Revenues

The following expenses were included in cost of revenues for the years ended December 31:

	2009	2008
City fees and permits	$ 22,736	$ 41,089
Subcontractor fees	14,947	28,521
Maintenance and repair expenses	11,708	15,615
Payroll of technical personnel	8,322	13,704
Payroll unified social tax expense	1,624	1,570
Depreciation and amortization	10,080	13,059
Electricity	2,071	2,489
Warehouse expenses	1,412	2,148
Transportation expenses	934	1,504
Other	2,259	2,588
Total	**$ 76,093**	**$ 122,287**

19. Selling, General and Administrative Expenses

The following expenses were included in selling, general and administrative expenses for the years ended 31 December:

	2009	2008
Payroll	$ 16,297	$ 22,086
Payroll unified social tax expense	2,217	1,979
Depreciation and amortization	4,625	5,639
Office rent and related expenses	2,967	5,345
Bad debt expense	1,472	4,375
Audit and consulting expenses	1,375	3,102
Taxes other than profit tax	1,098	2,404
Communication expenses	733	1,238
Advertising and marketing expenses	321	866
Business trips and representative expenses	310	819
Transportation expenses	264	693
Security expenses	217	417
Non-cash share-based payments	–	–
Bank charges	124	323
Other	1,399	1,011
Total	**$ 33,419**	**$ 50,297**

(in thousands of US dollars)

20. Finance income and costs

The following items were included in finance income for the years ended 31 December:

	2009	2008
Gain on purchase of Senior Secured Notes (Note 16)	$ –	$ 7,079
Gain on PIK Loan re-estimation	–	4,419
Bank interest	801	617
Other	–	442
Total finance income	**$ 801**	**$ 12,557**

The following items were included in finance costs for the years ended 31 December:

	2009	2008
Senior Secured Notes interest	$ 17,527	$ 18,671
PIK Loan interest	18,435	18,397
Finance leasing	34	1,006
Other	131	349
Total finance costs	**$ 36,127**	**$ 38,423**

21. Income Taxes

The components of income tax expense/(benefit) were as follows:

	Year Ended 31 December 2009	2008
Income tax expense/(credit) – current	$ 795	$ 3,940
Deferred tax expense/(benefit) – origination and reversal of temporary differences	(17,815)	30,349
	$ (17,020)	**$ 34,289**

(in thousands of US dollars)

21. Income Taxes (continued)

A reconciliation between the income tax expenses applicable to profit before income tax at the statutory tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Years ended 31 December 2009	2008
Profit before income tax	$ (134,805)	$ (121,923)
Theoretical tax expense at 20% Russian statutory rate (2008: 24%)	(26,961)	(29,262)
Effect of higher tax rate in Ukraine (25%)	(69)	94
Net loss/(profit) subject to imputed tax	–	12,315
Net loss in other foreign jurisdictions (not subject to income tax)	5,175	5,720
Non-deductible impairment loss on goodwill	–	14,140
Recognition of deferred tax assets and liabilities in connection with transition to profit tax from imputed tax regime	–	27,242
Change in unrecognized deferred tax assets	(198)	3,107
Non–deductible expenses and other permanent differences	5,033	933
Actual income tax provision for the year	**$ (17,020)**	**$ 34,289**

Movements in deferred income tax assets and liabilities were as follows:

	31 December 2007	Differences recognized and reversed	Translation difference	31 December 2008	Differences recognized and reversed	Translation difference	31 December 2009
Tax effects of taxable temporary differences:							
Property, equipment and inventory	$ (3,078)	$ (1,589)	$ 1,141	$ (3,526)	$ 3,266	$ 260	$ –
Fair value of licenses and permits	(6,912)	(29,626)	5,871	(30,667)	12,134	1,470	(17,063)
Allowance for impairment of receivables	(21)	37	(16)	–	–	–	–
	(10,011)	**(31,178)**	**6,996**	**(34,193)**	**15,400**	**1,730**	**(17,063)**
Tax effects of deductible temporary differences:							
Property, equipment and inventory	–	2,404	(759)	1,645	934	5	2,584
Allowance for impairment of receivables	–	835	(115)	720	1	(21)	700
Accrued liabilities	1,461	697	(360)	1,798	(613)	(89)	1,096
Losses carried forward	–	–	–	–	1,895	93	1,988
	1,461	**3,936**	**(1,234)**	**4,163**	**2,217**	**(12)**	**6,368**
Unrecognized deferred tax asset	–	(3,107)	876	(2,231)	198	75	(1,958)
	–	**(3,107)**	**876**	**(2,231)**	**198**	**75**	**(1,958)**
Total net deferred tax (liability)/asset	**$ (8,550)**	**$ (30,349)**	**$ 6,638**	**$ (32,261)**	**$ 17,815**	**$ 1,793**	**$ (12,653)**

21. Income Taxes (continued)

Deferred tax assets in the amount of $1,958 have not been recognized as of 31 December 2009 (2008: $2,231) as it is not probable that future taxable profit will allow the deferred tax assets to be recovered.

The Russian Federation and Ukraine were the only tax jurisdictions in which the Group's income was subject to taxation. The statutory income tax rates are 20% in Russia and 25% in Ukraine. In 2008, the income tax rate in Russia was 24% and was reduced to 20% by the federal law # 305-FZ starting from 1 January 2009. Accordingly the 20% tax rate was used to calculate deferred tax assets and liabilities as of 31 December 2008 and 2009.

Starting in 2005, the activity in relation to the placement of outdoor advertising in Russia was included in the list of activities for which the special tax regime of Unified Tax on Imputed Income (hereinafter referred as "imputed tax") should have been applied. Imputed tax was a special tax regime, which replaced the payment of VAT, profits tax, assets tax and UST by one unified tax on imputed income. From 1 January 2005, the Group started to apply imputed tax in the regions where the related local law was adopted, which is calculated based upon the number of billboards the Group owns or leases in a particular location. The imputed tax regime was not introduced only in five regions, with respect to which the general taxation system was applied to the Group. Imputed tax was not recorded as income tax, but as an operating expense.

On 22 July 2008, the Russian government implemented federal law #155, which clarified the criteria for the eligibility for companies to use the imputed tax regime. Due to these clarifications, beginning 1 January 2009, the Group moved back to the general tax regime in Russia. Consequently, the Group has calculated deferred income tax assets and liabilities on temporary differences as of 31 December 2008 and 2009.

Outdoor advertising in Ukraine was always taxed under the general profit taxation system.

22. Balances and Transactions with Related Parties

In accordance with IAS 24 "Related Party Disclosures," 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 related parties and has disclosed all of the relationships identified and which it deemed to be significant.

(in thousands of US dollars)

22. Balances and Transactions with Related Parties (continued)

Compensation to Key Management Personnel

Key management personnel is comprised of members of the Management Board of the Group, totaling eight persons during 2009 and seven persons in 2008.

Compensation to key management personnel consists of the following:

	2009	2008
Current compensation	$ 1,790	$ 1,664
	$ 1,790	**$ 1,664**

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. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Taxation

Russian and Ukrainian 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.

(in thousands of US dollars)

23. Contingencies, Commitments and Operating Risks (continued)

Taxation (continued)

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.

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 at the balance sheet date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to approximately $947.

Operating Lease Obligations

Operating lease obligations within 1 year as at 31 December are as follows:

	2009		2008	
	Russia	**Ukraine**	**Russia**	**Ukraine**
Lease of office space	$ 1,703	$ 124	$ 4,141	$ 467
Lease of warehouse space	1,049	31	1,602	133
	$ 2,752	**$ 155**	**$ 5,743**	**$ 600**

Legal Proceedings

Legal action has been commenced against the Group in respect of rental fees of certain of its advertising structures. The maximum payout is approximately $2,284. The Group won the first court hearing regarding this matter and does not expect a negative outcome from this litigation. As the risk that this action will succeed against the Group is possible, but not probable, no provision for any liability has been made in these consolidated financial statements.

In the ordinary course of business, the Group may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Group operates. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

(in thousands of US dollars)

24. Financial Risk Management

The Group's principal financial liabilities comprise Senior Secured notes, PIK loan, bank loans and overdrafts, finance leases, and trade payables. The main purpose of these financial liabilities is to raise financing for the Group's acquisitions and day to day operations. The Group has various financial assets such as trade receivables, cash and short-term deposits, which arise directly from its operations and capital markets transactions.

It is, and has been throughout 2009 and 2008 the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. Management reviews and sets policies for mitigating each of these risks which are summarized below and provides regular updates to the Board of Directors.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's PIK loan and finance lease debt obligations that bear floating interest rates.

The Group's policy is to manage its interest costs using a mix of fixed and variable rate debts. The Group's policy is to keep approximately 50% of its borrowings at fixed interest rates. At 31 December 2009, approximately 54% of the Group's borrowings are at a fixed rate of interest (2007: 57%).

The Group currently does not use interest rate caps, swaps or other derivatives to hedge its debt obligations. Should the economic conditions change and cause a discernible increase in the 3-month LIBOR rate, the use of hedging instruments will be considered.

Interest Rate Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase / decrease in basis points	**Effect on profit before tax**
2009		
US Dollar (3-month LIBOR)	+100	(1,400)
US Dollar (3-month LIBOR)	-25	300
2008		
US Dollar (3-month LIBOR)	+55	(651)
Russian Ruble (1-month Mosprime)	+1180	(343)
US Dollar (3-month LIBOR)	-55	651
Russian Ruble (1-month Mosprime)	-1180	343

(in thousands of US dollars)

24. Financial Risk Management (continued)

Foreign Currency Risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group's sales are primarily denominated in the functional currency of the operating company making the sale, and less than 1% of the Group's sales are denominated in foreign currencies. Excluding interest expense, approximately 98% of the Group's remaining costs are denominated in the company's functional currency.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase / decrease in US dollar rate	Effect on profit before tax
2009	+14.8%	(20,900)
	-14.8%	20,900
2008	+26.9%	(45,200)
	+9.3%	(15,600)

Credit Risk

The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 11.

With respect to credit risk arising from the other financial assets of the Group, which comprise primarily cash and cash equivalents, the Group maintains its available cash, mainly in US dollars and Russian rubles, in international banks, Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Liquidity Risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the projected cash flows from operations, as well as financing and investment activities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. The Group's policy is that not more than 75% of borrowings should mature in the next 12 month period. The Group's borrowings primarily consist of Senior Secured notes and a PIK loan, which both mature in 2013. As at 31 December 2009 and 2008, the Group's borrowings that will mature in the next 12 months consist of bank overdrafts, minimum finance lease payments and semi-annual coupon payments on the Senior Secured notes.

(in thousands of US dollars)

24. Financial Risk Management (continued)

Liquidity Risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted payments.

Year ended 31 December 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	218,718	–	16,351	234,205	–	469,274
Obligations under finance leases	–	–	22	–	–	22
Put option liability	4,000	–	–	–	–	4,000
Trade and other payables	–	14,399	–	–	–	14,399
Year ended 31 December 2008						
Interest bearing loans and borrowings	37	–	16,351	476,733	–	493,121
Obligations under finance leases	–	696	1,993	2,442	–	5,131
Put option liability	4,000	–	–	–	–	4,000
Trade and other payables	–	17,954	–	–	–	17,954

Concentration Risk

The Group's significant concentrations of risks in regards to customers and suppliers are detailed in the following tables:

	% of total Group revenue	
Client	**2009**	**2008**
M-Video Management	10.1%	1.7%
Publicis Group Media Eurasia	6.1%	11.4%

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

(in thousands of US dollars)

24. Financial Risk Management (continued)

Capital Management (continued)

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. As mentioned in Note 2 above, the global financial crisis has decreased the demand for outdoor advertising, and thus significantly decreased the revenues of the Group. In light of these current market conditions, the Group determined in May 2009 that it would be in the interests of the Group as well as its creditors to pursue a broadly consensual financial, debt and capital restructuring in order to provide the Group with a sustainable capital structure allowing it to continue normal operations despite the ongoing difficulties in the outdoor advertising market.

The Group monitors its capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to steadily decrease the gearing ratio. However, due to the impairment recognized as of 31 December 2009, the gearing ratio increased in the current year. The Group includes within net debt, interest bearing loans and borrowings, obligations under finance leases, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	2009	2008
Loans and borrowings	$ 310,212	$ 274,271
Obligations under finance leases	22	4,379
Less cash and short-term deposits	(28,714)	(36,111)
Net debt	**281,520**	**242,539**
Equity	(171,355)	(54,184)
Capital and net debt	**$ 110,165**	**$ 188,355**
Gearing ratio	256%	129%

Fair Values

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

	Carrying amount		Fair value	
	2009	**2008**	**2009**	**2008**
Financial assets				
Cash and short-term deposits	28,714	36,111	28,714	36,111
Trade and other receivables	16,022	20,003	16,022	20,003
Financial liabilities				
Loans and borrowings	310,212	274,271	169,302	162,683
Finance lease obligations	22	4,379	22	4,379
Trade payables	14,399	17,954	14,399	17,954

The fair value of liabilities for Senior Secured Notes was determined based on latest available market quotations of these securities, the fair value of liabilities for paid-in-kind loan was determined based on discounted cash flows method as these liabilities are not traded.

25. Post Balance Sheet events

Put option and joint venture

On March 17 2010 the Company signed the new agreement with the minority shareholder of the Company's subsidiary Larisa City located in Kazan. According to the new agreement the Company and its minority shareholder become joint owners of Larisa City and the clause of put option is removed in the new shareholders agreement. As a result, as of March 17 2010 the Group lost control over Larisa City. Starting from that date the Group will cease consolidation of Larisa City (it will be further accounted as an investment in joint venture) and will derecognize the related put option liability.