Etalon Group

Russia's leader in comfort class residential real estate

Etalon Group Limited
Annual Report and Financial Accounts 2012

18%

Y-o-y increase in revenue to RUB 26.9 billion

c. 887 ths sqm

NSA acquired under post-IPO acquisition programme

30%

Y-o-y increase in new contract sales to RUB 23.7 billion

RUB 890 million[1]

Net cash and cash equivalents position at 31 December 2012

Etalon Group is one of Russia's largest and most established residential real estate developers.

We are a residential real estate developer with a focus on large-scale integrated residential complexes, targeting the comfort class segment in the Moscow and St. Petersburg Metropolitan Areas. We have a growing project portfolio and a construction plan that represent significant medium-term growth potential. Our long-term growth will be driven by the development of our high quality land bank and further acquisitions, supported by our strong financial position and successful pre-sales model.

Etalon Group is one of the oldest companies in the sector, with a 25-year track record. The Company was founded by Viacheslav Zarenkov, who is today the President and majority shareholder. We have one of the longest and most successful track records in the Russian real estate industry, which has enabled us to gain the trust and confidence of our clients and partners over many years, and to develop one of the country's leading construction and development businesses.

What we do

We are a residential developer in Russia's "golden triangle" of St. Petersburg, Moscow and the greater Moscow area, with a dominant position in the comfort class segment. Our residential developments normally construction of entire estates. We are in effect creating destinations, or entire micro-districts, integrated with a full range of supporting infrastructure from schools to medical clinics to shopping and entertainment venues.

How we do it

We operate a fully vertically integrated business model with over 80 business units and employing over 4,000 people. Vertical integration means that we do everything from acquiring land to sales and cash collections from our customers. This enables us to maximise the margins we receive throughout the value chain, ensure effective control quality and reduce our exposure to cost inflation from external service providers. It also means that we are able to recycle cash within the Group to finance further construction activity.

This is one of the drivers of our net cash position of RUB 890 million at the end of 2012: Our pre-sales business model means that we aim to pre-sell 70-90% of all residential space before a building is delivered, and we target an average down payment of 50% (in 2012 the average down payment was 72%). This allows us to finance the construction process using money from our customers, as opposed to using loans or funding from shareholders.

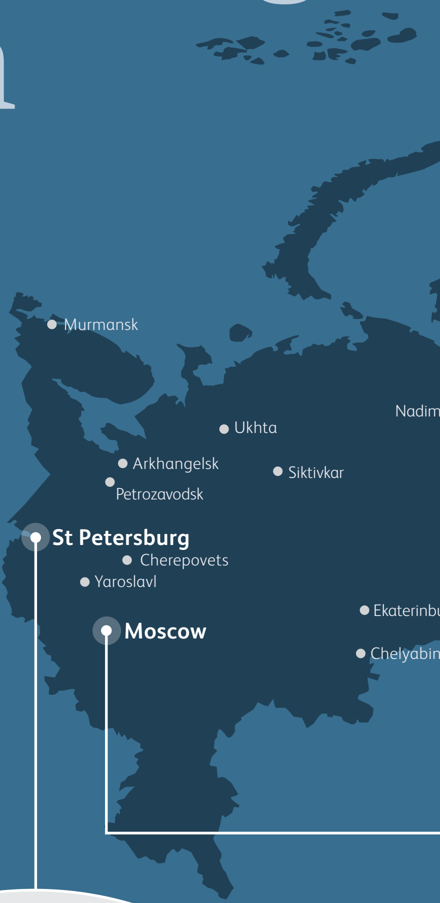
1 Includes bank deposits from short term investments (See Note 19 of 2012 audited IFRS financial statements)

Our focus is on the cities that are driving Russia's growth

Etalon Group operates in the St. Petersburg and the Moscow Metropolitan Areas (SPMA and MMA), the two markets at the forefront of Russia's economic development.

Located in suburban or newly urbanised areas outside city centres, our residential developments offer a relatively spacious living environment compared to city centres, with convenient access to transportation networks. Many of our projects are situated in environmentally cleaner districts and adjacent to natural scenery, such as parks and lakes.

Twelve years ago we saw the opportunity coming out of Russia's top metals and mining and oil & gas regions, where people with high disposable incomes would seek to relocate to St. Petersburg or Moscow after five to ten years. Because MMA and SPMA are areas where many people from around Russia eventually seek to live, we operate a unique nationwide sales network, which covers nine of the ten wealthiest regions of Russia, and spans 30 cities in total. Today this nationwide sales network generates up to 30% of our revenue, and was an important source of stable demand even throughout the crisis.

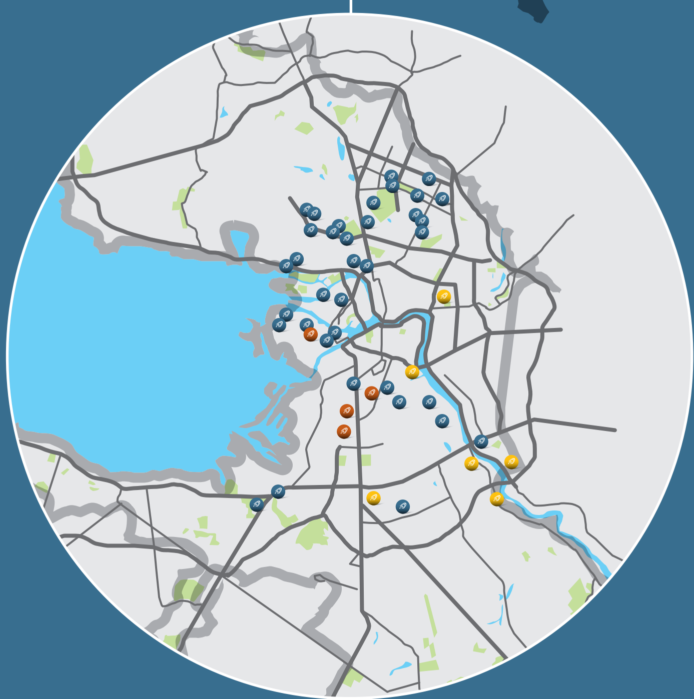


St. Petersburg Metropolitan Area

(SPMA)

Over the past ten years, Etalon Group has successfully established itself as a leading property developer in the St. Petersburg Metropolitan Area. We averaged an 11% annual market share of total residential completions in the private sector (excluding individual construction) in the region between 2000 and 2012.

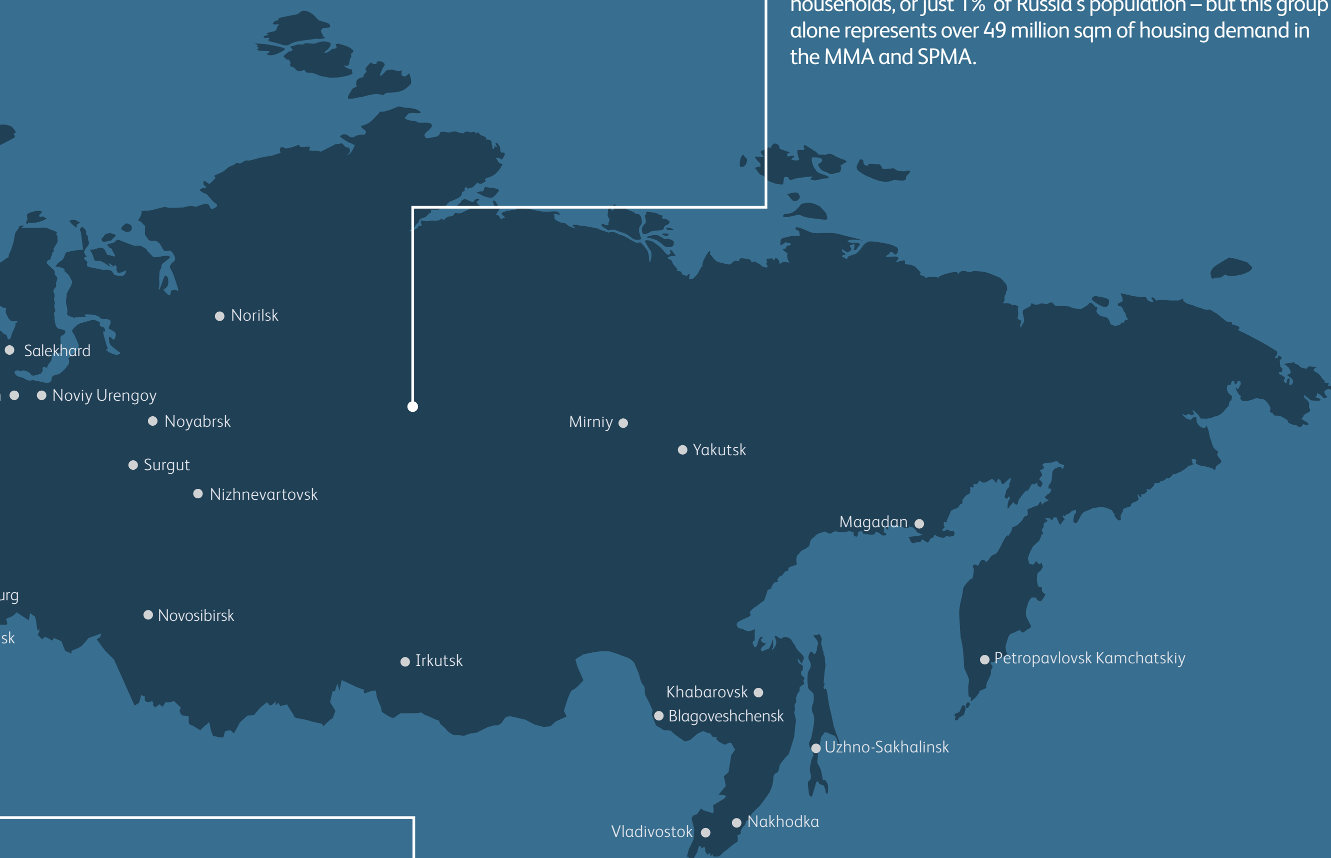
As of 31 December 2012, our projects in the St. Petersburg Metropolitan Area comprised approximately 60% of our total unsold net sellable area.



- Design stage
- Under construction
- Delivered

The Russian Property Market

The Russian property market is characterised by significant pent-up demand for high-quality housing. We are targeting approximately 600,000 middle and upper-middle class households, or just 1% of Russia's population – but this group alone represents over 49 million sqm of housing demand in the MMA and SPMA.



Moscow Metropolitan Area

(MMA)

Etalon Group began to establish a solid foothold in the Moscow Metropolitan Area in 2008, and we continue to expand our presence in this market.

As of 31 December 2012, our deliveries in the Moscow Metropolitan Area accounted for 23% of total deliveries (83 ths sqm). At the end of 2012, the share of MMA projects in our total landbank stood at 40%.

- Design stage
- Under construction

04 Well positioned

We remain the dominant player in the "comfort class" segment of high quality housing targeted at Russia's growing middle class. Our key customers are successful middle managers from throughout Russia – people with stable incomes that are sufficient for them to be able to consider an "upgrade" from standard economy class housing.

Read the **Market Overview** on page 04

08 Continuing progress

We completed our post-IPO acquisition programme in 2012, acquiring two projects in MMA and two in St. Petersburg with a total of 887 ths sqm of NSA. This secures our residential construction operations through 2017. In 2012 we also expanded substantially our presence in the MMA, growing our footprint to 5 sizable, high quality projects, while also increasing revenues by 18% y-o-y and new contract sales by 30% y-o-y.

Read the **Strategic Overview** on page 08

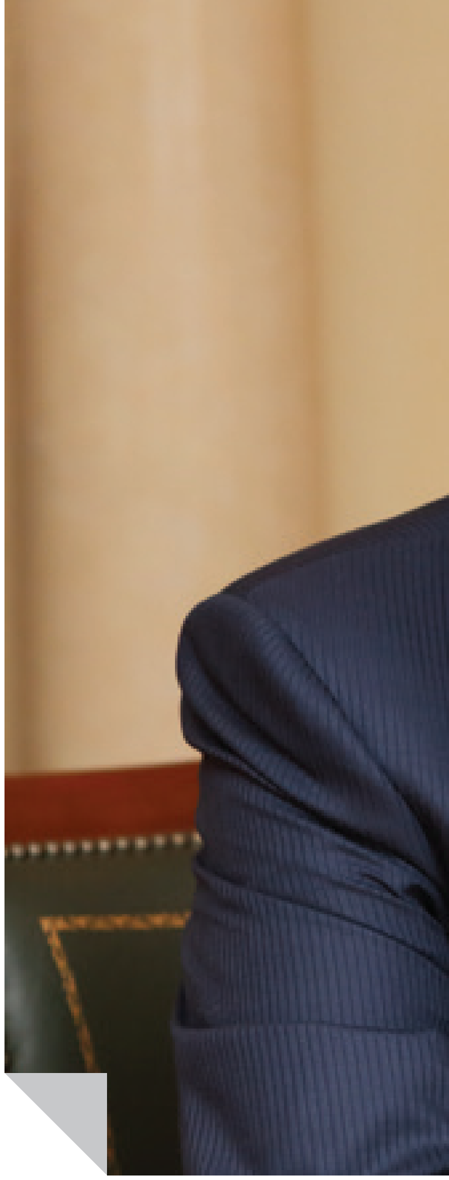
16 Robust & Sustainable

With a track record of more than 25 years, we have developed the trust and confidence of our clients. This, combined with a robust balance sheet and a strong cash-collections business model, means that we are well positioned to achieve sustainable growth over the long term.

Read the **Business Review** on page 16

A letter from
Viacheslav Zarenkov

Focused on building long term value



Viacheslav Zarenkov is Chairman of the Board of Directors, founding shareholder and President of Etalon Group.

Deliveries

+11%

New contract sales (RUB)

+30%

Dear shareholders,

I look back on 2012 and can say with all honesty that it was both a successful and a challenging year for Etalon Group.

We reached several landmarks during the year. Notably, the acquisition of two projects in each of the Moscow and St. Petersburg Metropolitan Areas added another 887 thousand square meters to our landbank. This marked the completion of the acquisition programme that we announced during our London IPO in 2011, and which was the primary use of the proceeds of that transaction. The addition of these projects mean that our residential construction programme is now secured at least through 2017, and underscores our strategy of planning for the long term to benefit from many years of continued growth in Russia's real estate markets.

Other achievements we are proud of include the launch of five projects during the year – Swallow's Nest, House on Tukhachevskogo Street, Letniy, Rechnoy and Molodejny – and the completion of two more: Jubilee Estate and Orbit. As a result of our continued success we have continued to increase the share of the Moscow Metropolitan Area in our portfolio – one of the most exciting places in the country for real estate developers and a key driver for future growth.

We have also continued to improve our corporate governance in line with global best practices. Last year saw the formation of a new Nomination and Remuneration Committee and the incorporation of a Strategy Committee to advise the Board of Directors on the Company's development. In addition, we changed the composition of the Audit Committee, and the majority of members are now independent non-executive directors.

Honoured Builder of Russia

Viacheslav Zarenkov being awarded as an Honoured Builder of Russia in 2007.

The year has not been entirely without its challenges, however. In November we updated the market on our revised construction schedule, which include delays to the expected delivery and sales launch dates of projects awaiting permits. This came following changes to the city administrations of Moscow and St. Petersburg and the situation affected the whole of the residential real estate construction sector in 2012. As we said at the time, we believe that the situation has now stabilised and are confident in our revised construction schedule. In February 2013 we received urban development plans for our Etalon City project in Moscow, and we have the planning permit for Tsar's Capital in St. Petersburg.

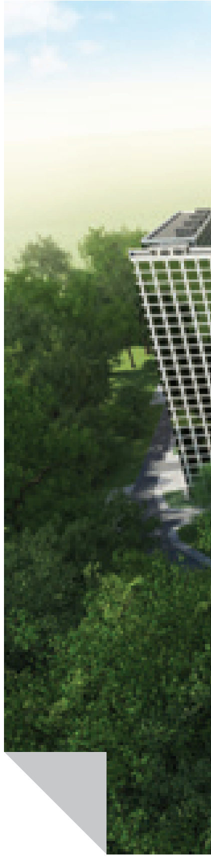
We remain firmly convinced of the potential for several generations of future growth in Russian residential real estate, for reasons that we explore in detail elsewhere in this report. Moreover, the particular strengths of our business model – our focus on integrated housing projects targeting the emerging middle classes, with financing driven by pre-sales – put us in pole position to benefit from this demand.

Looking to 2013 and beyond, the principal factors behind our success – continued growth in demand driven by economic fundamentals, and our strong position in the comfort class segment in Russia's most attractive markets – remain unchanged. With a new construction plan in place, we expect to reap the benefits over the years to come, particularly from 2016 onwards. We remain exceptionally well positioned for future growth, with a strong balance sheet, excellent landbank and a winning formula for Russian customers.

In conclusion, I would like to thank the Board of Directors and all of the staff of Etalon for their hard work during 2012, and look forward to another year of success in 2013.

Sincerely,

Viacheslav Zarenkov



Well positioned to grow in an attractive market

Russia stands out from other residential real estate markets around the world in that it continues to grow at a good pace, and given the chronic undersupply in the market, this growth is likely to continue for multiple generations to come.

The fundamentals of the homebuilding market in Russia remain highly attractive.

- Russia's housing market remains undersupplied, while demand is high and growing
- Moscow and St. Petersburg are the two most attractive markets
- Mortgage lending remains underdeveloped and is set to grow
- Pre-sales model ensures scalability and flexibility

Growth and capital concentrated in the "golden triangle"

Moscow and St. Petersburg offer the highest prices and widest margins for real estate developers. In both cities, the sector is demonstrating its resilience and long-term investment attractiveness.

MMA and SPMA account for 17% of Russia's population – but twice that percentage of GDP. The two Metropolitan areas continue to be the principal centres of Russia's economic and political gravity, attracting people from across the country. Added to the potential already present from the resident populations, this creates further sustainable demand for housing.

Both Metropolitan areas are far behind their counterparts in developed markets when it comes to housing stock, particularly of high quality and affordable homes. Moscow in particular suffers from a shortage of housing – statistics show it has even less per capita than the Russian average.

This combination of strong, sustained demand and a housing shortage make Russia's two capitals particularly attractive markets. The cities have led the way as Russia recovers from the effects of the global downturn – Moscow in March 2012 broke all previous monthly records for both transaction completions and mortgages granted. Etalon was the first non-Moscow-based developer to make significant inroads into the capital in 2008, when it bought the plot for its landmark Emerald Hills project.

Generations of demand

We are targeting c. 600 thousand households in the "Golden Triangle" that currently have the means and the desire to improve their living conditions, and that would be more inclined to buy on the primary as opposed to the secondary market.

Etalon City
Moscow Metropolitan Area

Etalon City is a large comfort class residential complex located in the South-West Administrative District of Moscow.

Sea Cascade
St. Petersburg

Sea Cascade is an upper comfort class residential complex, located in the historic Vasileostrovsky district of St. Petersburg.

These 600 thousand households represent about 1% of Russia's population. Yet even with this 1%, if one multiplies the number of households by the average 75 sqm apartment, this would represent 47 million sqm of effective demand. And these calculations do not include the approximately 30% of investment demand coming from Russia's regions.

To put 47 million sqm into context, last year Moscow accepted 2.4 million and St. Petersburg accepted 2.5 million sqm of newly-constructed real estate, excluding social housing, commercial, administrative and industrial premises.

This disparity between demand and supply has been the key force driving the market. With Russia's middle class still growing, this demand-supply equation will remain for several generations.

Taking a broader look at Russian residential real estate, decades of underinvestment have led to a low level of liveable housing stock in Russia compared to developed countries. This shortfall will take many years to overcome. Despite a residential real estate boom in the mid-2000s, housing remains in short supply, particularly in the "affordable comfort" segment where we specialise. The average Russian has between half to two-thirds of the square meterage of living space enjoyed by their European counterparts.

In addition, much of Russia's existing housing stock is in poor condition. The government estimates that about 3% of housing is unsafe for living and that as much as 40% is in need of replacement.

Even at pre-crisis rates, new construction was barely enough to cover amortisation of existing stock. Although the sector is recovering fast from the effects of the global economic downturn, average construction rates for new housing over the last three years were still below the level of 1990.

Meanwhile, standards of living and real incomes are rising dramatically, creating thousands of new potential customers. GDP has grown at above 5% annually in most years since 2000. Levels of real disposable income have increased, and more and more people want to improve their living conditions. The government has also put in place a long-term programme to support the housing sector, allowing people to take their first steps towards home ownership.

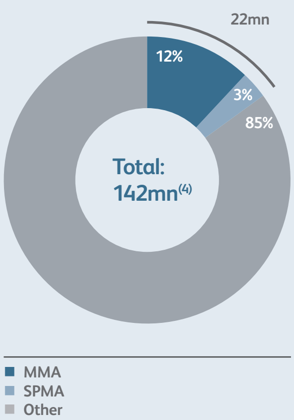
Mortgage lending on the rise

While we differentiate ourselves by offering tailored instalment plans that are often preferable to other forms of financing, mortgages nevertheless represented up to 18% of our sales in 2012, and we expect this number to rise as mortgage lending grows.

There is significant unsatisfied demand in Moscow and St. Petersburg Metropolitan Areas

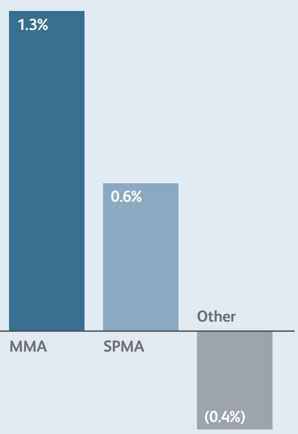
MMA & SPMA are the most populated Russian regions…

Population growth/(decline) in 2007 – 2010[3]



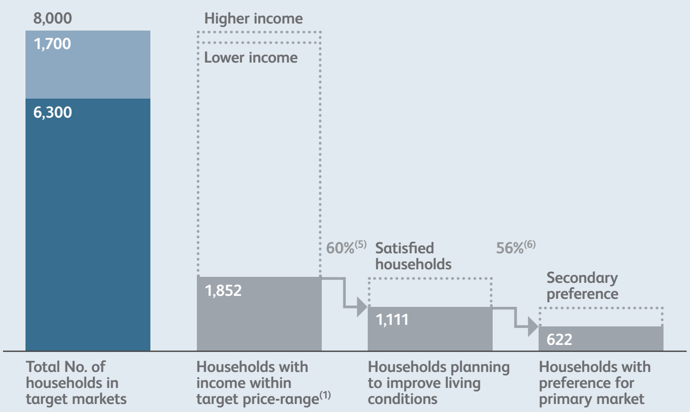
…with growing demand for residential real estate…

Population growth/(decline) in 2007 – 2010[3]



…amongst target income and price range.

Potential demand estimation (ths households)



2.4 mln sqm was delivered in Moscow last year. If you consider the average apartment size of 75 sqm, this represents 32,000 new housing units for the year. Taking into account the average family size is 2.7 people, these figures show that homes were delivered for approximately 86 thousand people in 2012.

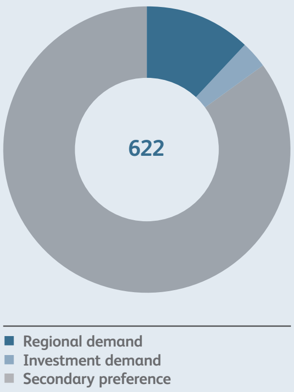
Compared with other developing nations, and despite rapid growth in the mid-2000s, mortgage lending remains under-developed in Russia. As the economy continues to recover, and as living standards and levels of disposable income increase further, mortgage lending will become an increasingly important factor driving sustainable demand for housing over the longer term.

The government has also put in place measures to support the long-term development of mortgage lending, with Prime Minister Vladimir Putin signing off on a 20-year strategy to support the sector in mid-2010.

Sberbank and VTB, both of them state controlled, dominate the mortgage lending market. Banks have adopted more stringent criteria to identify good quality borrowers since the economic downturn, but have also demonstrated their intentions to make mortgages more affordable to a broader section of the population with more favourable loan terms, such as smaller deposits and lower interest rates.

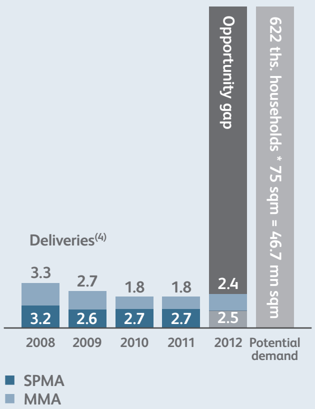
There are an estimated 620+ thousand households in our target market…

Indicative potential market (ths households)[3]



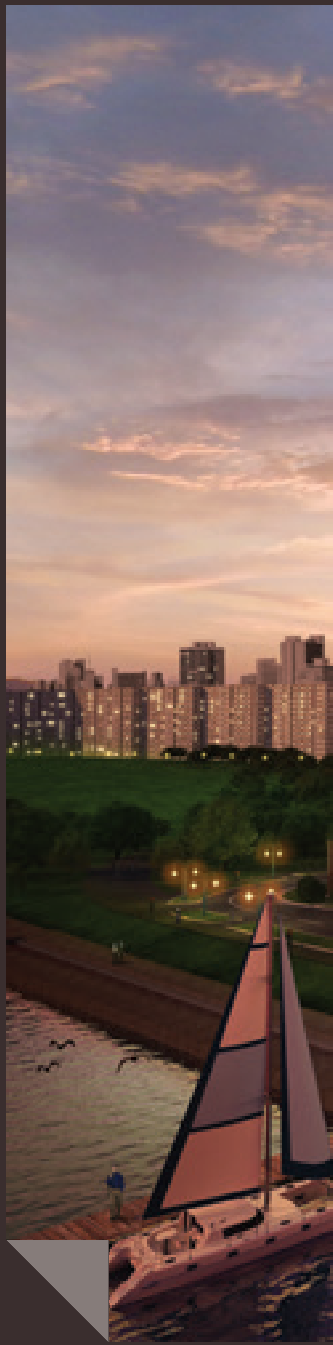
…which represents huge potential untapped demand.

Potential demand estimation (mln sqm)



The set of simple assumptions further supports the existence of significant unsatisfied demand for value-added housing in MMA and SPMA.

(1) Company estimates based on Rosstat's methodology and data; includes additional demand from mortgage users – share of sales with mortgage in total sales is 12%, according to MER (assuming no overlap between mortgage and instalments customers);
(2) The demand structure shown on the pie chart is for indicative purposes;
(3) Rosstat data as of January 2010;
(4) Residential real estate commissioning, excluding individual construction;
(5) 60% of households plan to improve living conditions (source – Rosstat; Comcon, 2010);
(6) 56% of consumers prefer primary vs. secondary residential real estate market (Source -Metrinfo survey in Moscow, 1H 2010)



Continuing to implement our strategy

We have a strong track record of successfully executing against our strategy. By staying true to our core competencies, we have been successful in building a business with a strong reputation, solid financial position and excellent operational performance. Already a leader in our home base of St. Petersburg, we have now established a strong foothold in the Moscow Metropolitan Area.

There are five key components to our strategy:

#1
Focus on core strength of home building

We concentrate on developing large-scale residential complexes in the affordable "comfort class" price segment.

We adapt to changes in market demand by responding to feedback from our extensive sales network and tailoring future projects to match.

We maintain a vertically integrated business model so that we can meet expected growth in our target market segments.

#2
Target key markets of SPMA and MMA

We intend to remain the leading property developer in the St. Petersburg Metropolitan Area (SPMA).

We have firmly established our presence in the Moscow Metropolitan Area (MMA), where we continue to increase our market share (target 50/50 split between MMA and SPMA).

We continue to grow our national sales network to expand our customer base across Russia and fuel sustainable growth.

Rechnoy

Rechnoy is a comfort class residential construction project situated in the Nevsky district of St. Petersburg on a land plot bordering the Neva River and Rybatsky Prospect.

#3
Disciplined management of land bank

We plan to maintain enough land reserves to fulfil our needs over the medium term.

We are currently land bank sufficient until the end of 2017, and are acquiring projects to ensure expansion capacity from 2015 to 2019.

We do not hold on to projects for future development, but look to minimise the time between acquisition and development.

We seek to enhance returns by reinvesting capital efficiently.

#4
Prudent attitude to financing

We focus on pre-sales as a key source of funding for the construction process.

We have a conservative strategy built on improving our borrowing structure.

We are lengthening the overall maturity profile of our debt, reducing borrowing costs and diversifying our sources of financing.

We aim to maintain a low level of leverage, measured by our debt-to-EBITDA ratio.

#5
Maintain strong cash-collections for pre-sales financed business model

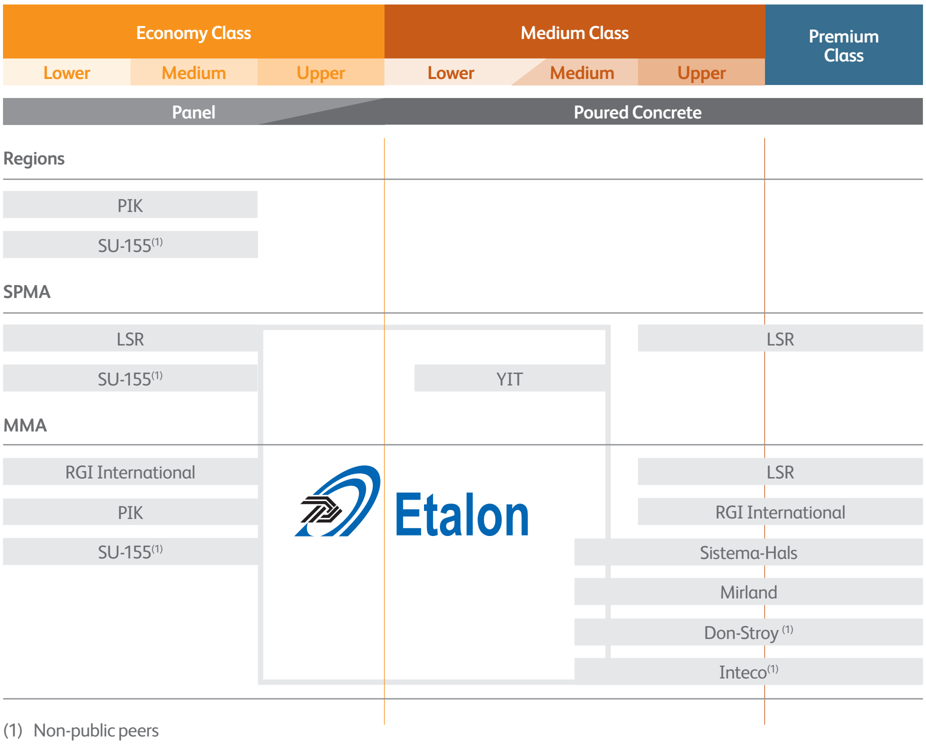
We continue to expand our brand recognition by investing in our sales and marketing operations as well as construction.

We emphasise customer service to create positive perceptions and enhance our reputation – a virtuous circle.

We generate sales in large part thanks to our reputation for consistently providing products of the highest quality.

Our strategic focus has enabled us to establish a track record of successful execution. By staying true to our core competencies, we have successfully built a business with a strong reputation, solid financial position and excellent operational performance. From our home base in the St. Petersburg Metropolitan Area, we have already established a strong foothold in the Moscow Metropolitan Area.

Real estate segment presence vs. peers



(1) Non-public peers

Leading the comfort class with best-in-class product

We are very proud of our product, which we believe offers our customers the best value for their money. We operate in the comfort class, which is in the sweet spot between economy and business classes. This is the "sweet spot" because we sell at prices that are accessible to a much broader customer base than business class, while our customers are in a more secure financial position than those who buy economy class apartments, as we saw during the crisis. We effectively offer our customers business class build quality at affordable prices.

One of the keys to success in our segment is the instalment plan payment scheme that we offer. Etalon Group's tailored instalment plans make it possible for more families to purchase apartments with balanced payments that fit within the family's budget while ensuring stable cash collections for Etalon. We offer our customers unique instalment plans, with down payments ranging from 10 – 90% and payment periods of up to 40 months or more. This allows us to tailor payment schedules to fit the disposable incomes of our customers.

Fully land bank sufficient to 2017 with a high quality construction programme aimed at delivering sustainable growth

We are fully land bank sufficient until 2017. We acquire land with a view to starting construction within 18 months. This means we do not try to speculate with our land, we do not acquire agricultural land or land that has infrastructure problems, we always seek to avoid any zoning risks and always maintain a "live" land bank.

We are a developer that helps cities to grow. Cities like Moscow and St. Petersburg naturally grow in concentric circles and hence our land bank is fully replenishable: we usually operate in the 6th-7th-8th belts around city centres, where land is still a commodity.

Our ambitious construction programme is based entirely on projects where we already own land rights. By 2016 we plan to deliver over 800 ths sqm, which is more than double our deliveries in 2012.

3.4 mln sqm

Commissioned since inception in 1987

Out truly vertically integrated business model in detail

Land acquisition & permits

We acquire land and manage the permitting process ourselves, reducing costs and enabling us to better manage risks.

Design

We maintain full control over the design process, which helps establish a distinct Etalon style and ensures greater harmonisation with our construction process.

Construction

With our own general operations we can better manage costs and ensure our high quality standards are met.

Sales & Marketing

Our in-house sales & marketing team is 100% committed to our success, and helps us quickly launch sales for new projects throughout Russia.

Ongoing Maintenance and Service

We believe we are best-placed to ensure the long-term quality of the residential housing we construct and sell.

Funding – Effective Capital Recycling

Control over costs, quality & timely delivery of the projects

Business stability and lower risk of counterparties' dependance

Understanding of customer needs (sales network throughout the country)

Residential high-rise development is our core business activity

We are a residential developer in Russia's "golden triangle" of St. Petersburg, Moscow and the greater Moscow area, with a dominant position in the comfort class segment.

A distinctive feature of Etalon Group's residential developments is that they involve the construction of entire estates – in essence creating destinations, or entire micro-districts, integrated with a full range of supporting infrastructure from schools to medical clinics to shopping and entertainment venues.

We often build in suburban or newly urbanised areas outside city centres, which means our residential developments offer customers more living space compared to city centres, while maintaining convenient access to transportation networks. Building outside of the centres also means that residents benefit from better environmental conditions, and are often adjacent to parks and lakes.

Truly vertically integrated business model

Etalon Group is the only company in the sector that can boast true vertical integration, with two strong management companies, five general contractors, 16 subcontractors, a crane company, a brick factory and a nationwide sales network. In addition to homebuilding, the superior quality of our offering means that we are a trusted industrial construction partner for clients including General Motors, Toyota, Ford Motors, Bosch, Siemens, Nissan, Suzuki and Gazprom.

And our unique nationwide sales network, which covers nine of the ten wealthiest regions of Russia, and spans 30 cities in total, is also an important contributor to our overall sales.

A solid portfolio of property

We have a solid portfolio of projects that are currently completed or in various stages of completion in both SPMA and MMA.

Overview

An effective, balanced portfolio…
We have a well balanced portfolio of high quality projects across our core markets in the Moscow and St. Petersburg Metropolitan Areas. Our projects, which are focused on the "comfort class", ensure steady cash flow generation within the Group.

An unrivalled history and track record…
Our more than 25 year history and track record of delivery instils trust in our customers, trust which only grew in recent times of market uncertainty. Since we were founded, we have successfully delivered more than 150 buildings with a total NSA of more than 3.4 billion sqm.

A strong platform for future growth…
We have 15 projects currently under development representing a total NSA of more than 3.9 million sqm, including the largest and the most ambitious Emerald Hills project in the Moscow Metropolitan Area (796 ths sqm).

We are fully land bank sufficient through to the end of 2017, and are currently looking at acquisitions which could secure our expansion capability through 2019.

… and a robust pipeline…
On the following pages is an overview of our current projects underway in both St. Petersburg and Moscow. A selection of some of our new and recently completed flagship projects are featured in more detail on pages 14 and 15.

Highlights

Project portfolio focused on cashflow generation.

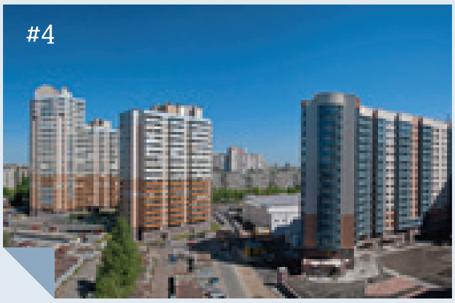
Focus on comfort class, which we sell through a nationwide sales network.

Leader in St. Petersburg real estate market with a c. 11% market share and a 25-year history.

Strong foothold in Moscow Metropolitan Area residential real estate market.

Land bank sufficient until 2017, supporting future recurring income.

Portfolio Highlights
Selected projects completed and underway



#1
Etalon City (MMA)

Large residential development located in South Butovo in the South-Western Administrative District of Moscow, which is a well developed residential area that benefits from good ecological conditions. The site has good transport links, with a number of bus stops within walking distance and is also close to the Ulitsa Skobelevskaya metro station. Alternatively it is possible to reach the centre of Moscow by car in 25 minutes.

NSA:

412 ths sqm

Construction period:
2012 – 2017

Status:
Obtaining planning permit.

#2
Emerald Hills (MMA)

Residential complex that will feature 29 buildings, including 20 16 – 25-storey residential buildings and underground parking. Built using poured concrete technology with brick elements and ventilated facades. The development is within 23 kilometres of the centre of Moscow and 20 minutes by public transportation from Tushinskaya metro station.

NSA:

796 ths sqm

Construction period:
2008 – 2018

Status:
Phase I (98 ths sqm of NSA) delivered in December 2011, 83 ths sqm of Phase II delivered in 2012 with a total NSA of 796 ths sqm.

#3
Jubilee Estate (SPMA)

Residential complex located in the Primorsky district, including 13 residential buildings of up to 25 floors with multi-level underground parking. Built using poured concrete technology with brick accents and ventilated facades. The development is in close proximity to the Komendantsky prospect metro station and major roadways.

NSA:

606 ths sqm

Construction period:
2007 – 2012

Status:
Delivered by the end of 2012, new roads approved in 2012 will improve access to the development.

#4
Orbit (SPMA)

Residential complex located in the Kalininsky district, encompassing four additional residential complexes previously developed by Etalon Group. The complex comprises four 17 – 24-storey residential buildings. Built using poured concrete technology with brick elements and ventilated facades, including underground parking and two kindergartens. The complex is located in an attractive area next to Benoit Garden, Piskarevsky and Murinsky parks, and St. Petersburg's largest park, Sosnovka.

NSA:

210 ths sqm

Construction period:
2008 – 2012

Status:
Delivered in 2012.

#5
Tsar's Capital (SPMA)

The development envisages a total site area of 20.8 hectares with a total net sellable area of 390 ths sqm. The site is located in the geographical centre of St. Petersburg and has good transport accessibility, being 1 km from the Moskovskiy railway station (Moscow direction), close to Nevsky Prospect, within walking distance from numerous shopping and entertainment centres.

NSA:

390 ths sqm

Construction period:
2012 – 2016

Status:
On track for completion in 2016.

#6
Rechnoy

Situated in the Nevsky district of St. Petersburg on a 2.2. hectare land plot bordering the Neva River and Rybatskiy Prospect. The project will consist of six buildings of 26 storeys and two buildings of four storeys, containing 1,550 flats, plus 700 parking spaces. Non-residential premises on the ground floor will house shops and services. Many of the flats will have beautiful views of the Neva River.

NSA: 109 ths sqm
Construction Period: 2012 – 2014
Status: On track for completion in 2014.

Nissan plant expansion

Nissan is set to expand its existing production capacity at its St. Petersburg site in Pargolovo, 140 Komendantskiy prospect. The project is to encompass the expansion of key facilities at Nissan's site, including manufacturing buildings, storage areas, and security points. This will enable the plant to increase its annual production capacity to 100,000 units, and to produce five different models simultaneously. Further investments of EUR 167 million will add 50,000 sqm of new production facilities, including new Press and Plastics Shops.

Construction Period: 2012 – 2014
Status: On track for completion in 2014.

Management Team
We have one of the longest track records in Russia's residential construction sector.

Robust & sustainable business model that delivers results

In 2012 we delivered more than 360 ths sqm of NSA and we completed our post-IPO acquisition programme. We also continued successful expansion in the Moscow Metropolitan Area, while maintaining a solid balance sheet that positions us well for further potential growth.

Sea Cascade St. Petersburg

Sea Cascade is an upper economy class residential complex located in the historic Vasileostrovsky district of St. Petersburg.

New projects acquired in 2012

Project	Region	NSA attributable to Etalon, '000 sqm	1st building expected delivery
1 Tukhachevskogo street	SPMA	24	2013
2 Galactica	SPMA	660	2016
3 Prospekt Budennogo	MMA	64	2016
4 Alekseevskiy district	MMA	139	2018
Total		**887**	

Net Cash

USD 29 mln

as of 31 December 2012

Revenue

+12%

y-o-y to USD 866 mln in 2012 from USD 774 mln in 2011

Operational Review

2012 was a successful year for Etalon Group with good sales growth. We also acquired four new projects in 2012, two each in the Moscow and St. Petersburg Metropolitan areas. These four new projects mark the completion of our IPO acquisition programme, and represent 887 ths sqm of new NSA. This secures our residential construction operations through 2017.

New contract sales in FY 2012 increased 30% y-o-y to RUB 24 bln and 17% to 316 ths sqm, driven by higher share of smaller apartments.

The total number of contracts in FY 2012 increased 38% y-o-y to 5,797. In 2012, the number of MMA contracts rose by 104% y-o-y to a total of 1,082.

Cash collections from residential operations remained strong, with a total of USD 672 million in 2012 (per management accounts). The average downpayment reached 72% and the share of mortgage sales rose to 18% in 4Q, the highest level in our history.

Deliveries in line with updated construction programme

Deliveries increased by 11% y-o-y to 363 ths sqm – fully in line with the revised construction programme, including further successful expansion into Moscow with 83 ths sqm delivered to the Emerald Hills project in FY 2012.

Transfers to customers decreased by 12% y-o-y- to 241 ths sqm of NSA, primarily because 31% of 2012 deliveries were scheduled for 4Q 2012 and a significant proportion of these are not expected to be transferred until 1Q 2013.

2012 Operational results overview

New sales	2011	2012	Change %
New sales, sqm	270,012	**316,466**	17%
New sales, mln RUB	18,306	**23,739**	30%

Deliveries	2011	2012	Change %
NSA delivered, sqm	328,435	**363,120**	11%
Transferred to customers, sqm	274,558	**240,912**	-12%

Quarterly summary	1Q 2012	2Q 2012	3Q 2012	4Q 2012
New sales, sqm	**77,726**	**69,155**	**75,102**	**94,483**
New sales, mln RUB	**5,566**	**5,195**	**5,563**	**7,415**
Average price, RUB/sqm	**71,611**	**75,120**	**74,073**	**78,484**

Annual deliveries plan

	2013	2014	2015
Planned Net Sellable Area ("NSA") Deliveries, ths sqm	467	582	707

Quarterly deliveries plan

	2012				2013				2014			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Planned net sellable area ("NSA") deliveries, ths sqm	–	107	146	111	–	28	–	439	42	40	211	289

Construction programme updated

The city administrations in both Moscow and St. Petersburg changed in 2011 and 2012, and this led to sector-wide delays in the residential development process and issuance of necessary permits.

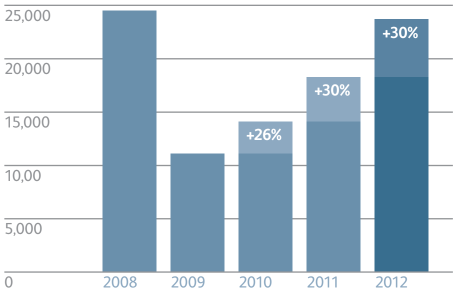
We have updated our construction programme to reflect changes in project timetables related to these sector-wide delays. We believe that this situation stabilised in late 2012, and are therefore fully confident that our updated construction programme is measured and achievable.

In order to minimise this kind of year end cut-off impact in the future, we have adjusted delivery targets going forward with the aim to complete deliveries before the end of October/November of each year.

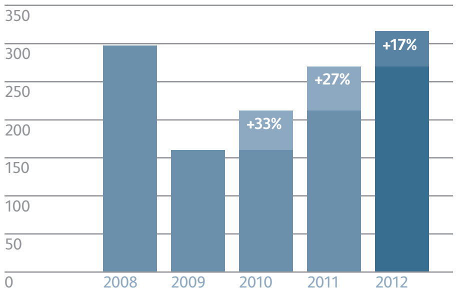
New contract sales

In 2012, new contract sales increased 17% year-on-year (y-o-y) to 316 ths sqm and 30% y-o-y to RUB 24 bln driven by a higher share of smaller apartments. While these results represent solid y-o-y growth, Etalon remains well below pre-crisis levels, and we believe there is substantial headroom for further recovery and growth. Before the crisis in 1H 2008, for example, we contracted 218 ths sqm in St. Petersburg alone.

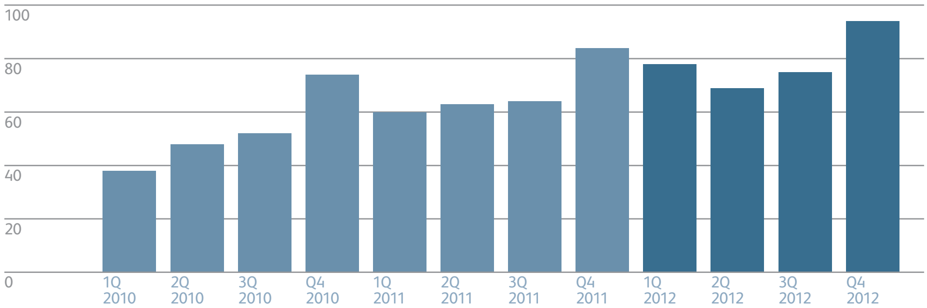
New contract sales
(mn RUB)



New contract sales
(ths sqm)

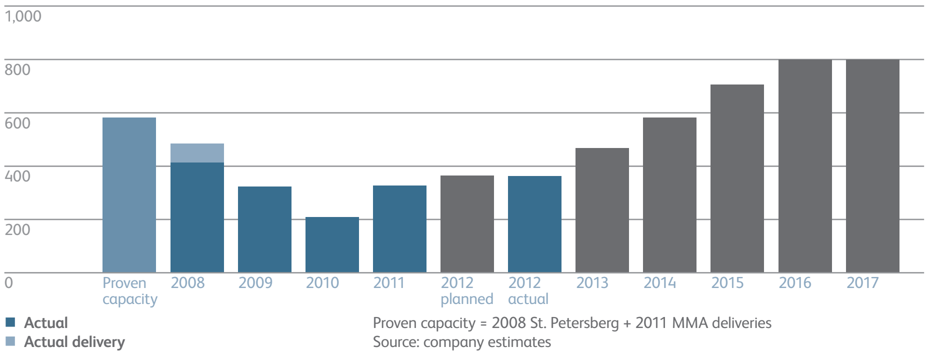


Quarterly new contract sales
(ths sqm)



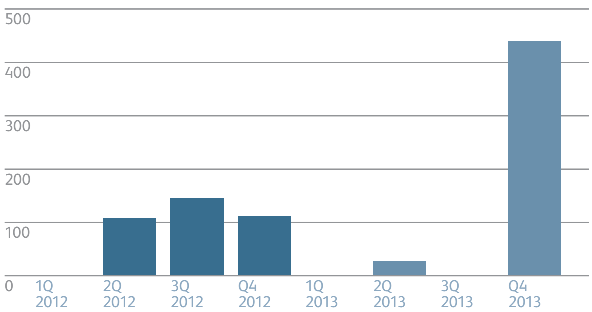
* Moscow metropolitan area

Updated construction programme
(ths sqm of NSA)



Proven capacity = 2008 St. Petersberg + 2011 MMA deliveries
Source: company estimates

Quarterly deliveries of NSA
(ths sqm)



Revenue

+12%

y-o-y to USD 866 mln from USD774 mln in FY 2011.

Financial Review

Revenue

Residential development gross profit margin of 43%.

Residential development gross profit margin was 43% in 2012 vs. 47% in 2011, driven by mix of projects as we completed some of the most profitable projects in our portfolio during 2012.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) was USD 223 million, down 20% from USD 279 million in FY 2011 on the back of decreased transfers to customers – some of which are expected to take place in 2013 instead of late 2012.

EBITDA margin decreased to 26% from 36% in FY 2011, driven by income from lower-margin construction services, which accounted for 18% of revenue in 2012 vs. 7% in 2011, as well as impairment effects.

Net profit for the year was USD 161 million, vs. USD 253 million in 2011.

Balance sheet position

While we used significant cash resources to complete our post-IPO acquisition programme in 2012, we nonetheless ended the year with a net cash position of USD 29 million. Gross debt at 31 December 2012 was USD 548 million, with repayments evenly spread out between 2013 and 2017.

Overall, our balanced debt maturity profile, solid track record and net cash position combined with strong cash collections will enable us to continue to acquire high quality projects and provide a perfect growth platform for the years to come.

Sustainability policy and practice

Health and safety

We consider the health and safety of our employees to be our most significant operational responsibility. We strive to create a healthy and safe working environment at each of our facilities and sites. We also educate our staff on safety issues through annual occupational safety workshops, and ensure that they have sufficient knowledge of workplace safety procedures before they are permitted to work on a site, or in a facility. All our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections when installing any equipment in order to ensure proper installation and safety.

Environment

We are committed to using the most efficient and effective practices with regards to the environment. Our quality control systems include environmental protection procedures such as controls for observance of standards for waste with respect to each production unit and controls for water contamination, noise pollution and air pollution in regulated sanitary zones.

Society

We aim to support both culture and sports in our key areas of operation. Most recently, we supported the construction of a children's music school and motor and cycle training facilities in St. Petersburg. In addition, our construction subsidiary has supported the maintenance and revival of a number of St. Petersburg's historical and cultural centres.

Building integrated schemes

Opening of a new school built by Etalon Group as a part of an integrated development project.

Employees

We are proud of all our teams across the Group, and focus on employee development on an ongoing basis through a number of training programmes.

We take a holistic approach to sustainability, and consider its implications across a number of different areas.

Openness and transparency

At Etalon Group, we are committed to openness and transparency. Corporate governance is a key component of ensuring that our robust strategy delivers results to its full potential.

Etalon Group is incorporated in Guernsey.

Governance structure

Subject to Etalon Group's articles of incorporation, applicable Guernsey law and to any directions given by ordinary resolution of the Company's shareholders, our business and affairs are managed by the Board of Directors (the "Board"), who are responsible for promoting the success of the Company by directing and supervising the Company's affairs.

We also have an Audit Committee, a Nomination and Remuneration Committee and a Strategy Committee. Senior management are involved in the day-to-day running of Etalon Group.

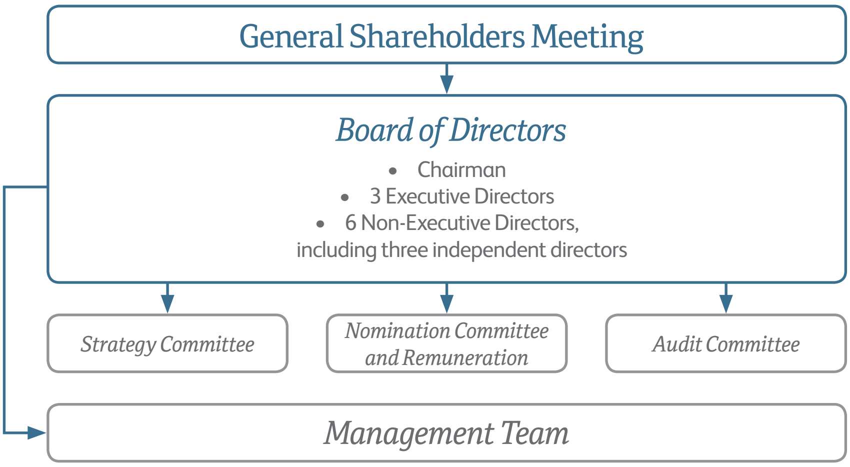
The Company is required to hold an Annual General Meeting (AGM) once in every calendar year, and not more than 15 months may elapse between one annual general meeting and the next. At the AGM on 13 December 2012, KPMG were re-appointed as auditors of the Company to hold office until the conclusion of the next annual general meeting, and the extension of the letters of appointment for Anton Poriadine and Martin Cocker were approved and are to be reviewed at the next Annual General Meeting.

Share capital structure

The Company's share capital is divided into 294,957,971 ordinary shares ("Ordinary Shares"). Each Ordinary Share has a nominal value of GBP 0.00005, and the amount of the aggregate nominal value of all such shares constitutes our share capital. The Ordinary Shares are all in registered form and freely transferable subject to the provisions of our articles of incorporation.

Global Depositary Receipts ("GDRs") representing Ordinary Shares have been issued by The Bank of New York Mellon in its capacity as depositary. The GDRs are admitted to trading on the London Stock Exchange.

Corporate Governance Structure*



* as of 30.04.2013

During the 2012 financial year Etalon Development Limited, a wholly owned subsidiary of the Company, purchased 90,000 GDRs, representing approximately 0.0003% of the Company's issued share capital, in connection with the 2011 GDR purchase program (the "GDR Programme"). The GDR Programme was authorised by the Company's independent shareholders at an extraordinary general meeting of the Company on 23 November 2011. The GDR Programme was suspended indefinitely on 12 March 2012, and expired in accordance with its terms on 23 November 2012. All of the GDRs purchased pursuant to the GDR Programme are held by Etalon Development Limited, and the Company expects Etalon Development to continue to hold these GDRs.

Role and responsibilities of Board of Directors and Board Committees

Board of Directors

Subject to Etalon Group's articles of incorporation, applicable Guernsey law and to any directions given by ordinary resolution of the Company's shareholders, our business and affairs are managed by the Board of Directors who may exercise all of the powers of the Company. The Board is responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board:

- Provides entrepreneurial leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- Sets the Company's strategic aims, ensure that the necessary financial and human resources and service providers are in place for the Company to meet its objectives, and review management performance and performance of Company service providers;
- Sets the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met; and
- Addresses other issues as provided for by Guernsey law and the Company's articles of incorporation.

Our Board is comprised of four executive and six non-executive directors (NEDs). Three of our NEDs are also independent directors (INEDs). The Board meets regularly, and brings together people with a wide range of experience in the construction business, as well as strategic planning, financial control, auditing and other key areas of governance.

The Board is responsible for promoting the success of the Company by directing and supervising the Company's affairs.

Board Committees

Detailed oversight work is undertaken by the Board Committees. This helps ensure oversight is thorough, but the Board ultimately retains responsibility for management of the Company. The Committees report back to the Board on issues that need to be brought to the Board's attention or considered and decided upon at Board level.

During 2012 the Company incorporated the Nomination and Remuneration Committee and the Strategy Committee. We also saw Anton Poriadine, an Independent Non-Executive Director (INED), join the Audit Committee. As a result, the majority of members of the Audit Committee are now INEDs.

Audit Committee

The Audit Committee is responsible for monitoring the financial reporting process and the integrity of our financial statements prepared under International Financial Reporting Standards ("IFRS") together with any other formal announcements relating to our financial performance. It is also responsible for reviewing our internal controls, and overseeing how management monitors compliance with Etalon Group's risk management policies and procedures, the effectiveness of Etalon Group's internal audit function and the independence, objectivity and the effectiveness of the external audit process. The Audit Committee is also responsible for considering the terms of appointment and remuneration of the external auditor.

The current members of the Audit Committee are Martin Cocker (Chairman of the Audit Committee), Anton Evdokimov (Etalon Group CFO) and Anton Poriadine. Mr. Poriadine was appointed in December 2012 as the second NED.

The Audit Committee met on 2 occasions during 2012. The non-executive directors on the Audit Committee regularly meet the external auditor without the presence of the Company's management. The Audit Committee's Chairman has also met the head of Internal Audit on several occasions without the Company's management being present. The key actions of the Audit Committee during the year have been:

Members of the Board of Directors

Viacheslav Zarenkov	Founding shareholder and President of Etalon Group	Nomination and Remuneration Committee (Chair), Strategy Committee
Dmitri Zarenkov	First Vice-President of Etalon Group	Nomination and Remuneration Committee
Anton Evdokimov	CFO of Etalon Group	Audit Committee, Strategy Committee
Dmitri Boulkhoukov	Head of Investments of Etalon Group	
Alexander Shkuratov*	Advisor to the President of Etalon Group*	
Michael John Calvey	Non-Executive Director	Nomination and Remuneration Committee
Alexei Kalinin	Non-Executive Director	Nomination and Remuneration Committee, Strategy Committee
Martin Coker	Independent Non-Executive Director	Audit Committee (Chair), Nomination and Remuneration Committee
Anton Poriadine	Independent Non-Executive Director	Audit Committee, Strategy Committee (Chair)
Peter Touzeau	Non-Executive Director	
Boris Svetlichniy*	Independent Non-Executive Director	

* Alexander Shkuratov served on the Board of Directors and as Advisor to the President of Etalon Group during 2012 and was replaced by Boris Svetlichniy, who joined Etalon Group's Board of Directors in April 2013.

- Drafting and agreement with the Board of the Audit Committee's terms of reference. The terms of reference were reviewed at the end of 2012 and will continued to be reviewed annually to ensure that they remain relevant.
- Review and approval of the terms of reference for Internal Audit and also its audit plan for the next two years. The Audit Committee has then monitored the results of the engagements conducted by Internal Audit during the year.
- Review of the Risk Management systems used to identify and monitor the significant risks faced by the Group.
- Review of the performance and independence of the external auditor. The Audit Committee is satisfied with the performance of KPMG and so has recommended to the Board that they be reappointed as auditors.
- The development and oversight of our policy on the engagement of the external auditor to supply non-audit services. To ensure that the nature of non-audit services performed by the external auditor or the level of fee income relative to the audit fees does not compromise or is seen to compromise their independence, objectivity or integrity, the external auditor is excluded from undertaking a range of work.

Members:

- Martin Robert Cocker (INED, Chairman)
- Anton Poriadine (INED)
- Anton Evdokimov (Etalon Group CFO)

Nomination and Remuneration Committee

In December 2012, the Board formed a new Nomination and Remuneration Committee to replace the separate Nominations Committee and Remunerations Committee. The committee is chaired by Etalon Group President Viacheslav Zarenkov, and includes Dmitry Zarenkov (First Vice-President of Etalon Group), Martin Cocker (INED), Michael Calvey (NED) and Alexey Kalinin (NED).

On remuneration, the committee advises the Board of Directors on the remuneration of the senior managers and executive officers, and the terms and conditions of employment agreements with the senior managers.

The committee is also responsible for the preparation of the selection criteria and appointment procedures for members of the Board of Directors and the review on a regular basis of the structure, size and composition of the Board of Directors.

In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board given Etalon Group's stage of development and makes recommendations to Etalon Group's Board as to any changes.

The committee also considers future appointments in respect of the composition of the Board and makes recommendations regarding the membership of the audit and remuneration committees.

Members:
- Viacheslav Zarenkov (President of Etalon Group, Chairman)
- Dmitry Zarenkov (First Vice-President of Etalon Group)
- Martin Cocker (INED)
- Michael Calvey (NED)
- Alexey Kalinin (NED)

Strategy Committee

In May 2012 Etalon Group announced the incorporation of the Strategy Committee of the Board of Directors and the appointment of Anton Poriadine as the committee chairman.

In his role as Chairman of the Strategy Committee, Anton Poriadine is responsible for guiding Etalon Group's post-IPO development by providing carefully considered strategic inputs to the Company's management.

Members:
- Anton Poriadine (INED, Chairman)
- Viacheslav Zarenkov (Etalon Group President)
- Anton Evdokimov (Etalon Group CFO)
- Alexey Kalinin (NED)

Internal control and risk management systems

A risk management framework has been established at Etalon Group to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits established. In particular, the risk management framework identifies significant risks that may, if not managed correctly, materially affect achievement of the Group's objectives or lead to material misstatements in the Group's financial reports.

Risk management policies and systems are periodically reviewed to ensure that they are still relevant and complete as a result of any changes in market conditions and the Group's activities. The review also ensures that the identified risks are being managed effectively.

Risk management policies and systems are periodically reviewed to ensure that they are still relevant and complete as a result of any changes in market conditions and the Group's activities.

The function of the Chief Risk Officer is vested in one of the Group's senior managers. The Audit Committee of the Board of Directors oversees how the Chief Risk Officer, and management generally, monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by the Company's internal audit unit.

Internal audit

An internal audit unit was established at Etalon Group in 2010 as an independent objective assurance and advisory activity designed to add value and improve operations and systems of internal control. Internal Audit helps the Group to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal audits in the Group are planned based on an assessment of risks. In 2011, audits were focused on major operational risks that have been identified in the business. The internal audit functionally reports to the Audit Committee of the Board of Directors and administratively to the Group's CEO.

Corporate governance code

Etalon Group, as a limited company incorporated under Guernsey law with GDRs admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange, is not subject to any corporate governance code, nor has it voluntarily decided to apply any corporate governance code.

However, Etalon Group does apply corporate governance standards. For example, Etalon Group has appointed two independent directors to its Board, it has appointed an Audit Committee and a Nomination and Remuneration Committee. This goes beyond the requirements of Guernsey law.

Board of Directors

Executive Directors

01 Viacheslav Zarenkov

Chairman of the Board of Directors, Founding shareholder and President of Etalon Group

Viacheslav Zarenkov has 43 years of experience in the construction industry, and was awarded the title Honoured Builder of Russia. He graduated from the Institute of Civil Engineering and the St. Petersburg University of Internal Affairs. He holds PhDs in economics, technical sciences and architecture, and also holds the rank of professor.

02 Dmitri Zarenkov

First Vice-President of Etalon Group

Dmitri Zarenkov has 16 years of experience in the construction industry, and was awarded the title Honoured Builder of Russia by the Ministry for Regional Development. He holds a PhD in engineering, and graduated from the Institute of Aeronautical Instrumentation, St. Petersburg University of Architecture & Civil Engineering and St. Petersburg University of Internal Affairs.

03 Anton Evdokimov

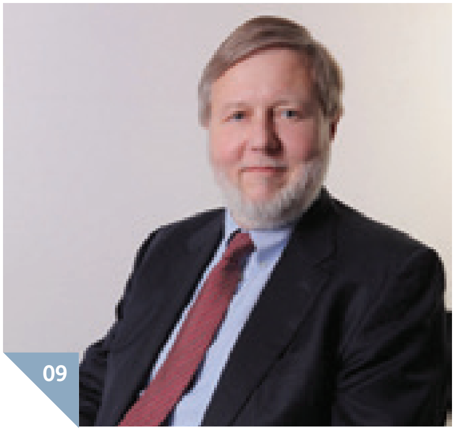
CFO of Etalon Group

Anton Evdokimov has 26 years of experience in the construction industry, and holds the Ministry for Regional Development's Certificate of Honour. He studied at Leningrad Engineering Construction Institute, St. Petersburg State University and International Banking Institute. He also received an MBA in business strategy from the Open University Business School.

04 Dmitri Boulkhoukov

Head of Investments of Etalon Group

Dmitri Boulkhoukov has seven years of experience in the construction industry, and previously held senior positions in finance at Renaissance Partners, Carlyle Group, Deloitte and E&Y. He is a graduate of Moscow State University.



Non-Executive Directors

05 Michael John Calvey

Michael John Calvey has been a Senior Partner at Baring Vostok since 1999. He is a board member at Europlan, Volga Gas, Gallery Media Group, among others. He previously worked at EBRD, Salomon Brothers and Sovlink Corporation, and was a board member at CTC Media, Golden Telecom and Burren Energy. He graduated from the University of Oklahoma and the London School of Economics.

06 Alexei Kalinin

Alexei Kalinin is a Senior Partner at Baring Vostok, where he has been since 1999. Previously he worked at Alfabank and Alfa Capital. He is Chairman of the Board of Directors at Volga Gas, and a board member at Samarenergo and two Russian glass companies. He graduated from Moscow Power Engineering University, and holds a PhD in Engineering.

07 Martin Cocker

Martin Cocker has 17 years of experience in audit, and four years' experience in the construction industry. He runs his own development business in Portugal, and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and UK. He graduated from the University of Keele.

08 Anton Poriadine

Anton Poriadine has 11 years of experience in strategy consulting at A.T. Kearney, where he is Partner and Vice President. Previously he was project manager at Barents International Markets B.V., Corporate Development and Project Finance Director at Torno Internazionale S.p.A., and deputy General Manager of St. Petersburg Foundation for Enterprise Development. He is a graduate of St. Petersburg Technical University and Business School at the University of Rochester.

09 Boris Svetlichniy

Mr. Svetlichniy brings to the Company 20 years of international financial and senior management experience and has held various senior finance positions at Orange Business Services, VimpelCom and GoldenTelecom.

Alexander Shkuratov was a member of the Board of Directors throughout 2012, and was replaced by Boris Svetlichniy, who joined the Board in April 2013.

10 Peter Touzeau

Peter Touzeau is a Client Director at International Private Equity Services (Guernsey) Limited. He is also Director of the General Partners Boards of a number of Guernsey private equity funds. He is Director of the Board of the Investment Advisor to the funds investing in Russia, board member of a number of their portfolio companies. Previous experience includes work at Sedgwick Management Services (Guernsey) Limited, and Marsh Management Services (Guernsey) Limited. He graduated from Oatlands College.

Director's Report

Principal activity
The principle activity of Etalon Group Limited and its subsidiaries (together referred to as the "Group") is residential development in Saint Petersburg Metropolitan area and Moscow Metropolitan area.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to Auditors
The Directors confirm that so far as they are aware, there is no information relevant to the audit of which the Company's auditors are unaware. The Directors also confirm that they have taken all steps they ought to have taken as Directors to make themselves aware of any information relevant to the audit and to establish that the Company's auditors are aware of that information.

Directors' responsibility statement
The Directors confirm that they have complied with the above requirements in preparing the financial statements and that to the best of our knowledge and belief:

(a) This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
(b) The financial statements, prepared in accordance with the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

Peter Touzeau **Director**	**Anton Evdokimov** **Director**

Responsibility statement

We confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

This annual report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Anton Evdokimov
Director

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20 New Street
St Peter Port
Guernsey
Channel Islands
GY1 4AN

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Telefax +44 (0)1481 722 373
Internet www.kpmg.com/channelislands

Independent auditor's report to the Members of Etalon Group Limited

We have audited the accompanying consolidated financial statements of Etalon Group Limited (the "Company", and together with its subsidiaries, the "Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2012, the Consolidated Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2012 and of its consolidated financial performance and its consolidated cash flows for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Mark R Thompson
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
20 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

mln RUB	Note	2012	2011
Revenue	7	**26,894**	22,741
Cost of sales		**(17,494)**	(11,888)
Gross profit		**9,400**	10,853
General and administrative expenses	9	**(2,324)**	(2,328)
Selling expenses		**(958)**	(854)
Other expenses, net	10	**(209)**	(27)
Results from operating activities		**5,909**	7,644
Finance income	12	**749**	1,441
Finance costs	12	**(132)**	(60)
Net finance income		**617**	1,381
Profit before income tax		**6,526**	9,025
Income tax expense	13	**(1,526)**	(1,585)
Profit for the year		**5,000**	7,440
Total comprehensive income for the year		**5,000**	7,440
Profit attributable to:			
Owners of the Company		**4,979**	7,332
Non-controlling interest		**21**	108
Profit for the year		**5,000**	7,440
Total comprehensive income attributable to:			
Owners of the Company		**4,979**	7,332
Non-controlling interest		**21**	108
Total comprehensive income for the year		**5,000**	7,440
Earnings per share			
Basic and diluted earnings per share (RUB)	22	**17.05**	26.83

These consolidated financial statements were approved by the Board of Directors on 20 March 2013 and were signed on its behalf by:

Peter Touzeau
Director

Anton Evdokimov
Director

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 34 to 60.

Consolidated Statement of Financial Position

As at 31 December 2012

mln RUB	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	14	**2,380**	2,009
Other long-term investments	15	**60**	88
Trade and other receivables	18	**433**	551
Deferred tax assets	16	**434**	679
Other non-current assets		**11**	92
Total non-current assets		**3,318**	3,419
Current assets			
Inventories	17	**41,522**	32,047
Trade and other receivables	18	**11,058**	7,473
Short-term investments	19	**6,870**	1,327
Cash and cash equivalents	20	**10,716**	14,484
Other current assets		**32**	34
Total current assets		**70,198**	55,365
Total assets		**73,516**	58,784
EQUITY AND LIABILITIES			
Equity			
Share capital	21	**14,967**	14,980
Retained earnings		**22,688**	17,704
Total equity attributable to equity holders of the Company		**37,655**	32,684
Non-controlling interest		**408**	372
Total equity		**38,063**	33,056
Non-current liabilities			
Loans and borrowings	23	**12,811**	8,456
Trade and other payables	25	**980**	48
Provisions	24	**65**	77
Deferred tax liabilities	16	**226**	98
Total non-current liabilities		**14,082**	8,679
Current liabilities			
Loans and borrowings	23	**3,825**	1,950
Trade and other payables	25	**16,966**	13,539
Provisions	24	**580**	1,560
Total current liabilities		**21,371**	17,049
Total equity and liabilities		**73,516**	58,784

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 34 to 60.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

mln RUB	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the Company				
Balance at 1 January 2011	1,952	10,157	12,109	459	12,568
Total comprehensive income for the year					
Profit for the year	–	7,332	7,332	108	7,440
Total comprehensive income for the year	–	7,332	7,332	108	7,440
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Shares issued	13,487		13,487	–	13,487
Own shares acquired (note 21)	(459)	–	(459)		(459)
Total contributions by and distributions to owners	13,028	–	13,028	–	13,028
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Changes in ownership interest in subsidiaries	–	215	215	(195)	20
Total transactions with owners	13,028	215	13,243	(195)	13,048
Balance at 31 December 2011	14,980	17,704	32,684	372	33,056

mln RUB	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the Company				
Balance at 1 January 2012	14,980	17,704	32,684	372	**33,056**
Total comprehensive income for the year					
Profit for the year	–	4,979	4,979	21	**5,000**
Total comprehensive income for the year	–	4,979	4,979	21	**5,000**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Own shares acquired (note 21)	(13)	–	(13)	–	**(13)**
Total contributions by and distributions to owners	(13)	–	(13)	–	**(13)**
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Changes in ownership interest in subsidiaries	–	5	5	15	**20**
Total transactions with owners	(13)	5	(8)	15	**7**
Balance at 31 December 2012	**14,967**	**22,688**	**37,655**	**408**	**38,063**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 34 to 60.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

mln RUB	Notes	2012	2011
OPERATING ACTIVITIES:			
Profit for the year		**5,000**	7,440
Adjustments for:			
Depreciation	14	**417**	265
Gain on disposal of property, plant and equipment		**(49)**	(92)
Loss on disposal of subsidiaries		**28**	1
Gain on disposal of equity accounted investees		**–**	(24)
Finance income, net		**(544)**	(1,425)
Income tax expense		**1,526**	1,585
Cash from operating activities before changes in working capital and provisions		**6,378**	7,750
Change in inventories		**(7,633)**	(5,308)
Change in accounts receivable		**(3,024)**	(2,893)
Change in accounts payable		**4,074**	(818)
Change in provisions	24	**(992)**	367
Change in other current assets		**3**	24
Income tax paid		**(1,833)**	(1,897)
Interest paid		**(1,097)**	(1,098)
Net cash used in operating activities		**(4,124)**	(3,873)
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		**71**	117
Interest received		**552**	140
Acquisition of property, plant and equipment		**(844)**	(726)
Loans given		**(371)**	(253)
Loans repaid		**363**	234
Disposal of subsidiaries, net of cash disposed of		**(8)**	(17)
Acquisition of other investments (bank deposits)		**(5,506)**	(1,027)
Net cash used in investing activities		**(5,743)**	(1,532)
FINANCING ACTIVITIES:			
Proceeds from initial public offering		**–**	13,487
Proceeds from disposal of non-controlling interest		**–**	24
Acquisition of non-controlling interest		**(3)**	(3)
Proceeds from borrowings		**12,140**	6,353
Repayments of borrowings		**(5,552)**	(4,821)
Acquisition of own shares		**(13)**	(459)
Net cash from financing activities		**6,572**	14,581
Net (decrease)/increase in cash and cash equivalents		**(3,295)**	9,176
Cash and cash equivalents at the beginning of the year		**14,484**	3,636
Effect of exchange rate fluctuations on cash and cash equivalents		**(473)**	1,672
Cash and cash equivalents at the end of the year	20	**10,716**	14,484

The Consolidated Statement of Cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 34 to 60.

1. BACKGROUND

(a) Organisation and operations

Etalon Group Limited (Etalon Limited before 19 January 2011, or the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open and closed joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad. The Company was incorporated on 8 November 2007 in the Bailiwick of Guernsey.

The Company's registered office is located at:

Ogier House,
St. Julian Avenue
St. Peter Port
Guernsey
GY1 IWA

The Group's principal activity is residential development in Saint Petersburg Metropolitan area and Moscow Metropolitan area, the Russian Federation.

In April 2011, the Company completed initial public offering and placed its ordinary shares in the form of global depository receipts ("GDR") on the London Stock Exchange's Main Market (see note 21).

Related party transactions are disclosed in note 30.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). They show a true and fair view of the assets, liabilities, financial position and profit of the Group and are in compliance with the Companies (Guernsey) Law, 2008.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, as well as information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 8 – revenue recognition;
- Note 17 – inventory obsolescence provisions;
- Note 24 – provisions;
- Note 29 – contingencies;
- Note 31 – special purpose entities (SPEs).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

(ii) Acquisitions of non-controlling interests
Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore no goodwill is recognised as a result of such transactions.

(iii) Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Special purpose entities
The Group has established a number of special purpose entities ("SPE"s) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or their assets.

In addition, the Group has established a number of housing cooperatives in which buyers of residential and commercial premises acquire shares and become members in order to obtain ownership rights for those premises. When third-party participants form a majority of the cooperative's members the Group's control over it ceases.

(v) Acquisitions from entities under common control
Business combinations arising from transfers of interests in entities that are under the control of the shareholders that control the Group are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in acquired entity's financial statements. Any difference between the book value of net assets acquired and consideration paid is recognised as a contribution from, or distribution to, shareholders.

(vi) Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations
The functional currency of foreign operations is RUB – the same as that of the Group, as activities of the foreign operations are carried out as an extension of the activities of the Group in the Russian Federation.

(c) Financial instruments

(i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES continued

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows

(ii) Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment loss, except for certain items of property plant and equipment purchased before 1 January 2003. Historical cost for such items was determined in accordance with IAS 29 "Financial reporting in hyperinflationary economies" by applying a purchase price index determined by the state statistics committee.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2008, the date of transition to IFRSs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings and constructions	7 – 30 years
• Machinery and equipment	5 – 15 years
• Vehicles	5 – 10 years
• Other assets	3 – 7 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2012.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised on the Group's consolidated statement of financial position.

(g) Inventories

Inventories comprise real estate properties under construction (including residential premises, stand-alone and built-in commercial premises) when the Group acts in the capacity of a developer, finished goods, and construction and other materials.

The Group accounts for stand-alone and built-in commercial properties within inventories because it does not intend to engage in renting-out those assets and keeping those as investment properties to generate rental income and benefit from appreciation. Properties classified as inventory may be rented out on a temporary basis while the Group is searching for a buyer. Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs. The costs of individual residential units and built-in commercial premises are arrived at by allocating the costs of a particular development project to individual apartments and built-in premises on a pro rata basis relative to their size.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project, including finance costs.

The cost of inventories, other than construction work in progress intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Transfer from real estate properties under construction to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

The Group's inventory is not limited to 12 months and may be of longer term since the development cycle exceeds 12 months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the reporting date.

(h) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for loans given and receivables at a specific asset level. All receivables and loans are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

3. SIGNIFICANT ACCOUNTING POLICIES continued

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated statement of comprehensive income.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or other profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in the consolidated statement of comprehensive income in the periods during which services are rendered by employees.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

The provision for warranties relates mainly to the residential units sold during the period. The provision is based on estimates made from historical experience from sale of such units.

(ii) Provision for deferred works

The Group records provisions in respect of the Group's obligation to incur additional costs associated with landscaping and other works after finishing the construction of apartment buildings. The provision is estimated based on the budgeted project costs and contractual arrangements for the performance of such works.

(k) Revenue

(i) Revenue from sale of real estate properties (including flats, commercial premises and parking places)

Revenue from the sale of real estate properties is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The Group generally defines the moment of transfer of risks and rewards as the date when the buyer signs the act of acceptance of the property. In relation to sales via housing cooperatives, revenue is recognised when sold real estate property is transferred to the cooperative, which may be on or after the Group's control over the cooperative has ceased (see note 3(a)(iv)). Before that, the respective building has to be approved by the State commission for acceptance of finished buildings.

(ii) Revenue from construction services

For accounting purposes the Group distinguishes two types of construction contracts:
1) Contracts for provision of construction services;
2) Contracts for construction of an asset falling within the scope of IAS 11 Construction Contracts.

For the first type of contracts revenue from construction services rendered is recognised in the consolidated statement of comprehensive income when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. These contracts are normally short-term, therefore revenue is recognised when the customer signs the act of acceptance of the construction service.

For the second type of contracts revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group recognises the following assets and liabilities related to construction contracts:

- unbilled receivables represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Unbilled receivables are presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings;
- billings in excess of work completed are recognised as a part of trade and other payables if progress billings exceed costs incurred plus recognised profits.

(iii) Revenue from sale of construction materials

Revenue from the sale of construction materials produced by the Group is recognised in the consolidated statement of comprehensive income when significant risks and rewards of ownership have been transferred to the buyer.

(iv) Rental income

Rental income from stand-alone and built-in commercial properties (see note 3(g)) is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES continued
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share
The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(p) Segment reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 5).

Inter-segment pricing is determined on an arm's length basis.

(q) Application of new standards and interpretations
From 1 January 2012 the Group has applied the amended IFRS 7 Disclosures – Transfers of Financial Assets that introduced additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment did not have any impact on the Group's consolidated financial statements.

From 1 January 2012 the Group has applied the amendment to IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets. The amendment introduced an exception to the measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 Business Combinations provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment did not have any impact on the Group's consolidated financial statements.

(r) New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- The package of new and amended standards on consolidation: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, revised IAS 27 Separate Financial Statements, and revised IAS 28 Investments in Associates and Joint Ventures. The package of new and revised standards introduces the new model of control and treatment of joint arrangements and new disclosure requirements. The package is effective for annual periods beginning on or after 1 January 2013. The Group does not expect the package to have a material impact on its consolidated financial position and results of operations.
- New standard IFRS 13 Fair Value Measurement. The new standard sets new fair value measurement and disclosure requirements. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Group does not expect IFRS 13 to have a material impact on its consolidated financial position and results of operations.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Non-derivative financial assets

The fair value of trade and other receivables, excluding construction work in progress and held to maturity investments, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Derivatives

The Group denominates its trade receivables from sales of commercial and residential properties in conditional units that are linked to RUB/USD exchange rate. The upper and lower ranges of possible fluctuations of exchange rate are fixed in the sales contracts.

The Group accounts for such elements of sales contracts as embedded derivatives. Currently, the fair value of such derivative instruments is not significant.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Residential Development. Includes construction of residential real estate including flats, built-in premises and parking places.
- Construction services. Includes construction services for third parties.
- Other operations. Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments in 2012 or 2011.

(a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	2012	2011	2012	2011	2012	2011	2012	2011
External revenues	19,424	19,359	4,782	1,532	1,223	650	25,429	21,541
Inter-segment revenue	–	–	8,735	7,425	887	1,446	9,622	8,871
Total segment revenue	19,424	19,359	13,517	8,957	2,110	2,096	35,051	30,412
Gross profit	8,365	9,091	1,149	879	14	541	9,528	10,511

	2012	2011	2012	2011	2012	2011	2012	2011
Reportable segment assets: inventory	42,073	31,935	575	544	958	1,261	43,606	33,740
Reportable segment liabilities: advances from customers	9,698	7,772	2,386	1,739	60	180	12,144	9,691

(b) Geographical information

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

	Revenues		Non-current assets	
mln RUB	2012	2011	2012	2011
St. Petersburg Metropolitan area	24,648	20,334	2,511	2,497
Moscow Metropolitan area	2,246	2,407	807	922
	26,894	22,741	3,318	3,419

(c) Major customer

Revenue from one customer of the Group represented RUB 4,097 million or 15% of the Group's total revenue for the year ended 31 December 2012 (revenue from this customer for the year ended 31 December 2011: RUB 471 million or 2% of the Group's total revenue).

5. OPERATING SEGMENTS continued

(d) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

mln RUB	2012	2011
Revenues		
Total revenue for reportable segments	**35,051**	30,412
Other revenue	**1,465**	1,200
Elimination of inter-segment revenue	**(9,622)**	(8,871)
Consolidated revenue	**26,894**	22,741
Profit or loss		
Gross profit for reportable segments	**9,528**	10,511
General and administrative expenses	**(2,324)**	(2,328)
Selling expenses	**(958)**	(854)
Other expenses, net	**(209)**	(27)
Finance income	**749**	1,441
Finance costs	**(132)**	(60)
Elimination of inter-segment profit	**(14)**	263
Other profit or loss	**(114)**	79
Consolidated profit before income tax	**6,526**	9,025

	2012	2011
Assets		
Total assets for reportable segments: inventory	**43,606**	33,740
Elimination of unrealised gain	**(2,096)**	(1,698)
Other	**12**	5
Total inventories	**41,522**	32,047
Liabilities		
Total liabilities for reportable segments: advances from customers	**12,144**	9,691
Elimination of intersegment advances	**(489)**	(1,338)
Other unallocated amounts	**92**	380
Total advances from customers	**11,747**	8,733

Performance of the reporting segments is measured by the management based on gross profits as the most relevant in evaluating the results of certain segments. General and administrative expenses, selling expenses, finance income and finance costs are treated as equally attributable to all reporting segments and are not analysed by the Group and therefore not reported for each individual segment.

Segments' assets and segments' liabilities being analysed by the Board of Directors include inventories and advances received from customers as the key indicators relevant for segment performance measurement. Therefore, other assets and liabilities are not allocated between the segments.

6. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

During the years ended 31 December 2012 and 2011 the Group acquired and disposed of certain interests in a number of its subsidiaries. The transactions resulted in an increase of non-controlling interest of RUB 15 million for the year ended 31 December 2012 and of RUB 33 million for the year ended 31 December 2011. The difference in the amount of RUB 5 million between the book value of net assets acquired and consideration paid was recognized as gain directly in equity during the year ended 31 December 2012 (year ended 31 December 2011: loss of RUB 3 million).

During the year ended 31 December 2011 the Group increased share capital of two of its subsidiaries – CJSC "UK Etalon" and CJSC "SSMO LenSpetsSMU" by means of issuing new shares. All the new shares issued have been acquired by the Group, resulting in decrease of non-controlling interest by RUB 228 million and gain of RUB 218 million that was recognized directly in equity.

7. REVENUE

mln RUB	2012	2011
Sale of flats	**18,145**	18,241
Construction services	**4,782**	1,532
Sale of built-in commercial premises	**740**	837
Sale of stand-alone commercial premises	**199**	133
Sale of parking places	**539**	281
Sale of construction materials	**1,023**	517
Rental revenue	**366**	218
Other revenue	**1,100**	982
Total revenues	**26,894**	22,741

8. CONSTRUCTION CONTRACTS

mln RUB	2012	2011
Revenue recognised during the year	**4,291**	1,237
Costs incurred	**(3,537)**	(961)
Recognised profits during the year	**754**	276

	2012	2011
For contracts in progress – aggregate amount of costs incurred and recognised profits to date	**1,404**	1,483
Unbilled receivables	**66**	9
Billings in excess of work completed	**68**	117
Retentions relating to construction contracts	**152**	38

Revenue recognised during the year is included into the line “Construction services” in note 7.

Unbilled receivables under construction contracts and retentions relating to construction contracts in progress are included into accounts receivable (see note 18).

Advances for which the related work has not started, and billings in excess of costs incurred and recognised profits, are presented as accounts payable (see note 25).

9. GENERAL AND ADMINISTRATIVE EXPENSES

mln RUB	2012	2011
Payroll and related taxes	**1,706**	1,667
Audit and consulting services	**102**	110
Services	**144**	128
Bank fees and commissions	**67**	46
Repair and maintenance	**45**	46
Materials	**49**	36
Other	**211**	295
Total	**2,324**	2,328

10. OTHER INCOME AND EXPENSES

mln RUB	2012	2011
Other income		
Gain on disposal of property, plant and equipment	**49**	92
Gain on disposal of equity accounted investees	**–**	24
Fees and penalties received	**–**	6
	49	122
Other expenses		
Other expenses	**(226)**	(148)
Fees and penalties incurred	**(4)**	–
Loss on disposal of subsidiaries	**(28)**	(1)
	(258)	(149)
Other expenses, net	**(209)**	(27)

11. PERSONNEL COSTS

mln RUB	2012	2011
Wages and salaries	**3,442**	3,036
Contributions to state pension fund	**683**	515
	4,125	3,551

During the year ended 31 December 2012, personnel costs and related taxes included in cost of sales amounted to RUB 2,070 million (year ended 31 December 2011: RUB 1,537 million). The remaining part of personnel expenses was subsumed within general and administrative expenses, selling expenses and inventory.

During the year ended 31 December 2011, a part of wages and salaries attributable to initial public offering were included directly in equity (see note 21).

12. FINANCE INCOME AND FINANCE COSTS

mln RUB	2012	2011
Recognised in profit or loss		
Finance income		
Interest income on bank deposits	**543**	140
Unwinding of discount on trade receivables	**124**	121
Decrease in allowance for doubtful accounts receivable	**60**	–
Interest income on loans and receivables	**9**	6
Gain on write-off of accounts payable	**13**	6
Net foreign exchange gain	**–**	1,168
Finance income	**749**	1,441
Finance costs		
Net foreign exchange loss	**(125)**	–
Interest expense on loans and finance leases	**(7)**	(10)
Allowance for doubtful accounts receivable	**–**	(50)
Finance costs	**(132)**	(60)
Net finance income recognised in profit or loss	**617**	1,381

In addition to interest expense recognised in the consolidated statement of comprehensive income, the following amounts of borrowing costs have been capitalised into the cost of real estate properties under construction:

mln RUB	2012	2011
Borrowing costs capitalised during the year	**1,243**	1,162
Weighted average capitalisation rate	**9.19%**	12.54%

During the year ended 31 December 2012, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 341 million (year ended 31 December 2011: RUB 169 million), were included into the cost of sales upon completion of construction and sale of those properties.

13. INCOME TAX EXPENSE

The Company's applicable tax rate under the Income Tax (Zero/Ten) (Guernsey) Law, 2007 is 0%. The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2011: 20%).

mln RUB	2012	2011
Current tax expense		
Current year	**1,370**	1,884
(Over-provided)/under-provided in prior year	**(215)**	77
	1,155	1,961
Deferred tax expense		
Origination and reversal of temporary differences	**156**	(376)
Underprovided in prior year	**215**	–
Income tax expense	**1,526**	1,585

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2011: 20%):

mln RUB	2012	2011
Profit before tax	**6,526**	9,025
Theoretical income tax at statutory rate of 20%	**1,305**	1,805
Adjustments due to:		
Expenses not deductible and income not taxable for tax purposes, net	**221**	(220)
Income tax expense	**1,526**	1,585

14. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2012, depreciation expense of RUB 385 million (31 December 2011: RUB 239 million) has been charged to cost of goods sold, RUB 17 million (31 December 2011: RUB 27 million) to cost of real estate properties under construction, RUB 1 million (31 December 2011: RUB 1 million) to selling expenses and RUB 31 million (31 December 2011: RUB 25 million) to general and administrative expenses.

(a) Security

At 31 December 2012 properties with a carrying amount of RUB 81 million (31 December 2011: RUB 85 million) are subject to a registered debenture to secure bank loans (see note 23).

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2012 the net book value of leased plant and machinery was RUB 416 million (31 December 2011: RUB 270 million). The leased equipment secures lease obligations.

14. PROPERTY, PLANT AND EQUIPMENT continued

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2011	709	1,498	71	100	12	80	**2,470**
Additions	102	149	34	13	–	57	**355**
Reclassification from inventory	460	–	–	–	–	–	**460**
Disposals	(81)	(48)	(17)	(9)	–	–	**(155)**
Transfer to inventory	–	–	–	–	–	(112)	**(112)**
Transfers	12	–	–	–	–	(12)	**–**
Balance at 31 December 2011	1,202	1,599	88	104	12	13	**3,018**
Balance at 1 January 2012	1,202	1,599	88	104	12	13	**3,018**
Additions	224	625	37	18	12	82	**998**
Disposals	(250)	(81)	(17)	(10)	–	–	**(358)**
Transfers	12	–	–	–	–	(12)	**–**
Balance at 31 December 2012	1,188	2,143	108	112	24	83	**3,658**
Depreciation and impairment losses							
Balance at 1 January 2011	(170)	(534)	(36)	(70)	–	–	**(810)**
Depreciation for the period	(71)	(196)	(11)	(14)	–	–	**(292)**
Disposals	40	32	14	7	–	–	**93**
Balance at 31 December 2011	(201)	(698)	(33)	(77)	–	–	**(1,009)**
Balance at 1 January 2012	(201)	(698)	(33)	(77)	–	–	**(1,009)**
Depreciation for the period	(112)	(292)	(15)	(15)	–	–	**(434)**
Disposals	85	57	13	10	–	–	**165**
Balance at 31 December 2012	(228)	(933)	(35)	(82)	–	–	**(1,278)**
Carrying amounts							
At 1 January 2011	539	964	35	30	12	80	**1,660**
At 31 December 2011	1,001	901	55	27	12	13	**2,009**
At 31 December 2012	960	1,210	73	30	24	83	**2,380**

15. OTHER LONG-TERM INVESTMENTS

mln RUB	**2012**	2011
Loans, at amortised cost	**40**	67
Other	**20**	21
	60	88

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26.

16. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
mln RUB	**2012**	2011	**2012**	2011	**2012**	2011
Property, plant and equipment	**170**	115	**(199)**	(172)	**(29)**	(57)
Investments	**11**	11	**–**	–	**11**	11
Inventories	**388**	714	**(401)**	(28)	**(13)**	686
Trade and other receivables	**85**	110	**(933)**	(499)	**(848)**	(389)
Deferred expenses	**131**	180	**(89)**	(118)	**42**	62
Loans and borrowings	**13**	13	**(3)**	(13)	**10**	–
Provisions	**225**	147	**7**	(23)	**232**	124
Trade and other payables	**624**	336	**25**	(345)	**649**	(9)
Tax loss carry-forwards	**108**	95	**(12)**	–	**96**	95
Other	**69**	68	**(11)**	(10)	**58**	58
Tax assets/(liabilities)	**1,824**	1,789	**(1,616)**	(1,208)	**208**	581
Set off of tax	**(1,390)**	(1,110)	**1,390**	1,110	**–**	–
Net tax assets/(liabilities)	**434**	679	**(226)**	(98)	**208**	581

(b) Unrecognised deferred tax liability

At 31 December 2012 a deferred tax liability of RUB 1,081 million (31 December 2011: RUB 829 million) arising on temporary differences of RUB 21,621 million (31 December 2011: RUB 16,580 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the year

mln RUB	1 January 2012	Recognised in profit or loss	Disposed of	**31 December 2012**
Property, plant and equipment	(57)	28	–	(29)
Investments	11	–	–	11
Inventories	686	(699)	–	(13)
Trade and other receivables	(389)	(459)	–	(848)
Deferred expenses	62	(20)	–	42
Loans and borrowings	–	10	–	10
Provisions	124	108	–	232
Trade and other payables	(9)	658	–	649
Tax loss carry-forwards	95	3	(2)	96
Other	58	–	–	58
	581	**(371)**	**(2)**	**208**

16. DEFERRED TAX ASSETS AND LIABILITIES continued

mln RUB	1 January 2011	Recognised in profit or loss	Disposed of	31 December 2011
Property, plant and equipment	(51)	(6)	–	(57)
Investments	20	(9)	–	11
Inventories	1,475	(789)	–	686
Trade and other receivables	(292)	(87)	(10)	(389)
Deferred expenses	9	55	(2)	62
Loans and borrowings	(5)	5	–	–
Provisions	(23)	147	–	124
Trade and other payables	(1,199)	1,195	(5)	(9)
Tax loss carry-forwards	94	2	(1)	95
Other	195	(137)	–	58
	223	**376**	**(18)**	**581**

17. INVENTORIES

mln RUB	2012	2011
Own flats under construction	**19,937**	14,610
Own flats	**10,535**	7,488
Built-in and stand-alone premises under construction	**6,675**	6,682
Built-in premises	**4,032**	2,840
Construction materials	**518**	473
Other	**129**	97
	41,826	32,190
Less: Allowance for obsolete inventory	**(304)**	(143)
Total	**41,522**	32,047

During the year ended 31 December 2010, the Group acquired rights on the certain land plot with the total value of RUB 473 million, of which RUB 97 million represents cash payment contingent on the receipt of the construction permit. The total value of the land plot of RUB 473 million is included in own flats under construction. In addition to that, the Group has to transfer to the seller certain number of flats (up to 20%) to be constructed on this land plot, which is also contingent on the receipt of the construction permit. As of 31 December 2012, the construction permit has not been received.

The following is movement in the allowance for obsolete inventory:

mln RUB	2012	2011
Balance at the beginning of the period	**143**	919
Change in allowance for obsolete inventory	**161**	(776)
Balance at end of the period	**304**	143

The amount of allowance of RUB 296 million (31 December 2011: RUB 137 million) out of RUB 304 million relates to one item of stand-alone commercial property, included into the segment “Other” in note 5(a). The allowance, in the absence of the market transactions for sale and purchase of similar assets, was estimated using future cash flow techniques. Cash flows were estimated as if the property has been rented out. At 31 December 2012 the gross value of the property item equals to RUB 933 million (31 December 2011: RUB 900 million).

The Group has temporarily rented out part of certain items of property classified as inventory in these consolidated financial statements. The total carrying value of these items of property was RUB 1 339 million as at 31 December 2012 (31 December 2011: RUB 1,514 million). The Group is actively seeking a buyer for these properties.

Inventories with a carrying amount of RUB 4,593 million (31 December 2011: RUB 468 million) are pledged as security for borrowings (see note 23).

18. TRADE AND OTHER RECEIVABLES

mln RUB	2012	2011
Long-term		
Trade receivables	**427**	505
Advances paid to suppliers	**3**	43
Other receivables	**3**	3
	433	551
Short-term		
Advances paid to suppliers	**5,759**	3,549
VAT recoverable	**1,717**	868
Trade receivables	**2,954**	2,777
Income tax receivable	**310**	72
Unbilled receivables	**118**	9
Trade receivables due from related parties	**6**	6
Other taxes receivable	**4**	8
Other receivables due from related parties	**1**	1
Other receivables	**280**	336
	11,149	7,626
Less: Allowance for doubtful accounts receivable	**(91)**	(153)
Short-term less allowance	**11,058**	7,473
Total	**11,491**	8,024

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

19. SHORT-TERM INVESTMENTS

mln RUB	2012	2011
Bank deposits (over three months)	**6,810**	1 ,284
Change in allowance for obsolete inventory	**60**	43
	6,870	1,327

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

20. CASH AND CASH EQUIVALENTS

mln RUB	2012	2011
Cash in banks, in USD	**4,226**	9,644
Cash in banks, in RUB	**763**	643
Cash in banks, in EUR	**399**	294
Cash in transit	**15**	11
Petty cash	**3**	2
Short-term deposits (less than three months)	**5,310**	3,890
Cash and cash equivalents in the statement of financial position	**10,716**	14,484
Cash and cash equivalents in the statement of cash flows	**10,716**	14,484

The Group keeps major bank balances in the following Russian banks – Bank St. Petersburg, Alfa Bank and London branch of Citibank.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

21. CAPITAL AND RESERVES

(a) Share capital

The table below summarizes the information about the share capital of Etalon Group Limited.

Number of shares unless otherwise stated	Ordinary shares 2012	2011
Authorised shares		
Par value at beginning of year	**0.00005 GBP**	0.01 GBP
On issue at beginning of year	**292,119,971**	1,117,647
Issued as a result of 1:200 share split	**–**	222,411,753
Par value at end of year	**0.00005 GBP**	0.00005 GBP
New shares issued during the year	**–**	71,428,571
Own shares acquired	**(90,000)**	(2,838,000)
On issue at end of year, fully paid	**292,029,971**	292,119,971

The holders of ordinary shares are entitled to receive dividends and to one vote per share at meetings of the Company.

Share split

With effect from 20 March 2011, pursuant to an ordinary resolution of shareholders, each of the Company's 1,117,647 existing ordinary shares of GBP 0.01 was sub-divided into 200 ordinary shares of GBP 0.00005 each, resulting in the total number of shares becoming 223,529,400.

Issue of new shares and completion of initial public offering

In April 2011, pursuant to a special resolution of shareholders and for the purpose of initial public offering, the Company issued 71,428,571 ordinary shares for an aggregate amount of GBP 3,571 at par value.

In April 2011, the Company completed initial public offering of 71,428,571 ordinary shares at value USD 7 each and placed global depository receipts (GDR's) on the London Stock Exchange. Following the offering, the Company's share capital consists of 294,957,971 ordinary shares in an aggregate amount of GBP 14,748 at par value.

Gross proceeds from shares offering amounted to RUB 14,073 million. Costs directly attributable to shares offering amounted to RUB 586 million. Net proceeds from shares offering amounted to RUB 13,487 million.

(b) Reserve for own shares

Acquisition of own shares

On 23 November 2011, the independent shareholders of the Company approved the purchase of Global Depositary Receipts (GDR's) representing ordinary shares of the Company of up to 9.25% of the Company's issued share capital. The programme commenced on 24 November 2011 and was indefinitely suspended on 12 March 2012. As at 31 December 2012, the Group has acquired 2,928,000 own shares or 1% of issued share capital (as at 31 December 2011: 2,838,000 own shares or 1% of issued share capital) for the consideration of RUB 472 million (as at 31 December 2011: RUB 459 million).

(c) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2012, the total of subsidiaries' retained earnings, including the profits for the current period were RUB 21,483 million (31 December 2011: RUB 16,386 million). No dividends have been declared and paid by the Company in 2011 and 2012.

22. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding during the year, as shown below. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	2012	2011
Issued shares at 1 January	**292,119,971**	223,529,400
Effect of shares issued for cash in April	**–**	49,902,152
Effect of own shares acquired	**(88,754)**	(125,402)
Weighted average number of shares for the year ended 31 December	**292,031,217**	273,306,150
Profit attributable to the owners of the Company, mln RUB	**4,979**	7,332
Basic and diluted earnings per share (RUB)	**17.05**	26.83

23. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk (see note 26).

mln RUB	2012	2011
Non-current liabilities		
Secured bank loans	3,896	1,443
Unsecured bank loans	3,941	6,405
Unsecured bond issues	4,974	608
	12,811	8,456
Current liabilities		
Current portion of secured bank loans	360	15
Current portion of unsecured bank loans	2,833	223
Current portion of unsecured bond issues	632	1,712
	3,825	1,950

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2012		31 December 2011	
mln RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				4,256	4,256	1,458	1,458
Secured bank loan	EUR	EURIBOR 6M+5.25%	2014	1,353	1,353	1,242	1,242
Secured bank loan	EUR	EURIBOR 6M+3.85%	2015	876	876	216	216
Secured bank loan	EUR	EURIBOR 6M+3.2%	2017	600	600	–	–
Secured bank loan	RUB	12.25%	2016	20	20	–	–
Secured bank loan	RUB	11.50%	2015	526	526	–	–
Secured bank loan	RUB	12.00%	2015	350	350	–	–
Secured bank loan	RUB	12.00%	2015	216	216	–	–
Secured bank loan	RUB	12.00%	2014	315	315	–	–
Unsecured bank loans				6,799	6,774	6,673	6,628
Unsecured bank loan	USD	LIBOR 3M+6.5%	2014	291	291	469	469
Unsecured bank loan	USD	10.00%	2013	607	607		
Unsecured bank loan	RUB	9.00%	2013	6	6	–	–
Unsecured bank loan	RUB	9.50%	2015	1,250	1,250	1,250	1,250
Unsecured bank loan	USD	LIBOR 3M+6.5%	2015	607	607	644	644
Unsecured bank loan	USD	9.75%	2015	4,038	4,013	4,290	4,245
Unsecured bank loan	RUB	14.00%	2012	–	–	20	20
Unsecured bond issues				5,630	5,606	2,329	2,320
Unsecured bonds	RUB	16.00%	2012	–	–	807	803
Unsecured bonds	RUB	12.90%	2017	5,023	4,998	–	–
Unsecured bonds	RUB	14.50%	2013	607	608	1,522	1,517
				16,685	16,636	10,460	10,406

Bank loans are secured by:

- Buildings with a carrying amount of RUB 81 million (see note 14).
- Inventory with a carrying amount of RUB 4,593 million (see note 17).

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. None of the restrictive covenants have been breached during the reporting period.

24. PROVISIONS

mln RUB	Warranties	Provision for deferred works	Total
Balance at 1 January 2011	81	1,189	1,270
Provisions made during the year	8	1,497	1,505
Provisions used during the year	(12)	(1,126)	(1,138)
Balance at 31 December 2011	77	1,560	1,637
Balance at 1 January 2012	77	1,560	1,637
Provisions made during the year	25	1,169	1,194
Provisions used during the year	(37)	(2,149)	(2,186)
Balance at 31 December 2012	**65**	**580**	**645**
Non-current	65	–	65
Current	–	580	580
	65	580	645

(a) Warranties

The provision for warranties relates mainly to the residential units sold during the year. The provision is based on estimates made from historical experience from the sale of such units. The Group expects the expenses to be incurred over the next three years in average. For the production companies, the warranty provision relates to construction works done.

(b) Provision for deferred works

The Group records provisions in respect of the Group's obligation to incur additional costs associated with landscaping and other works after finishing the construction of apartment buildings. The provision is estimated based on historical experience. The Group expects the expenses to be incurred over the next year.

25. TRADE AND OTHER PAYABLES

mln RUB	2012	2011
Long-term		
Trade payables	**779**	32
Finance lease liabilities	**164**	3
Advances from customers	**30**	2
Other payables	**7**	11
	980	**48**
Short-term		
Advances from customers	**11,717**	8,731
Trade payables	**2,887**	2,271
VAT payable	**1,484**	1,140
Payroll liabilities	**334**	242
Other taxes payable	**132**	86
Billings in excess of work completed	**64**	117
Income tax payable	**7**	447
Finance lease liabilities	**7**	55
Other payables	**334**	450
	16,966	13,539
Total	**17,946**	13,587

In 2008 the Group acquired a land plot for construction in the Moscow region. The acquisition was partly paid in cash; the remaining amount was partly settled in 2011 and 2012 by means of transfer of real estate properties completed during 2011 and 2012. The amount, which remains to be settled, equals to RUB 217 million as at 31 December 2012 (31 December 2011: RUB 785 million), is recognised within trade payables.

Advances from customers are represented by prepayments for housing and commercial properties made under sales contracts. In case customers cancel sales contracts, advances received by the Group are repaid within three months from the moment of cancellation, but withholding 5 – 10% forfeit.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

Finance lease liabilities are payable as follows:

mln RUB	2012 Future minimum lease payments	2012 Interest	2012 Present value of minimum lease payments	2011 Future minimum lease payments	2011 Interest	2011 Present value of minimum lease payments
Less than one year	**25**	**18**	**7**	56	1	55
Between one and five years	**195**	**31**	**164**	3	–	3
	220	**49**	**171**	59	1	58

Terms and conditions of outstanding finance lease liabilities were as follows:

mln RUB Currency	Nominal interest rate	Year of maturity	2012 Face value	2012 Carrying amount	2011 Face value	2011 Carrying amount
EUR	8.79%–9.77%	2012	**–**	**–**	54	54
RUB	17.71% – 24.27%	2012 – 2015	**171**	**171**	4	4
			171	**171**	58	58

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

The Group's financial instruments as at 31 December 2012, 31 December 2011 are categorized as follows:

mln RUB	2012	2011
Financial assets at amortised cost		
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	**10,608**	4,878
Cash and cash equivalents	**10,716**	14,484
	21,324	19,362
Financial liabilities at amortised cost	**32,959**	22,320

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents, deposits with banks as well as credit exposures to customers, including outstanding trade and other receivables.

Credit risk with regards of cash and cash equivalents and deposits with banks is managed by placing funds primarily in the banks listed in note 20.

Credit risk connected with trade receivable arising from sale of apartments to individuals is managed by securing those receivables against sold apartments. A significant share of such sales is made on a prepayment basis.

To manage the credit risk of trade receivables from legal entities the Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are applied.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no customers accounting individually for more than 10% of the Group's balance of trade and other receivables as at 31 December 2012 (31 December 2011: none).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

As at 31 December 2012 the Group had not provided any financial guarantees to entities outside the Group (31 December 2011: nil).

(iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
mln RUB	**2012**	2011
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	**10,608**	4,878
Cash and cash equivalents	**10,716**	14,484
	21,324	19,362

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was concentrated in the St. Petersburg region.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was concentrated on the industrial customers – legal entities included in the segment "Construction services".

Impairment losses

The aging of trade receivables at the reporting date was:

	2012		2011	
mln RUB	**Gross**	**Impairment**	Gross	Impairment
Not past due	**2,910**	**–**	3,105	–
Past due 0 – 30 days	**134**	**–**	58	–
Past due 31 – 120 days	**293**	**–**	65	–
Past due more than 120 days	**50**	**(50)**	60	(60)
	3,387	**(50)**	3,288	(60)

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

mln RUB	**2012**	2011
Balance at 1 January	**72**	33
Increase during the year	**13**	54
Write-offs	**(1)**	(1)
Decrease due to reversal	**(34)**	(14)
Balance at 31 December	**50**	72

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

mln RUB	**2012**	2011
Balance at 1 January	**81**	89
Increase during the year	**24**	22
Write-offs	**(1)**	(2)
Decrease due to reversal	**(63)**	(28)
Balance at 31 December	**41**	81

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Each year the Group prepares cash flow budget to forecast possible liquidity deficits and to define the sources of financing of those deficits. The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

mln RUB

2012	Carrying amount	Contractual cash flows	0 – 6 mths	6 – 12 mths	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	Over 5 yrs
Non-derivative financial assets									
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	10,608	10,608	9,877	261	211	161	22	20	56
Cash and cash equivalents	10,716	10,716	10,716	–	–	–	–	–	–
	21,324	**21,324**	**20,593**	**261**	**211**	**161**	**22**	**20**	**56**

	Carrying amount	Contractual cash flows	0 – 6 mths	6 – 12 mths	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	4,256	4,823	358	535	2,806	1,124	–	–	–
Unsecured bank loans	6,774	7,237	1,718	1,408	2,466	1,645	–	–	–
Unsecured bond issues	5,606	8,222	965	322	643	1,193	2,666	2,433	–
Finance lease liabilities	171	220	12	13	69	50	43	33	–
Trade and other payables (excluding taxes payable)	16,152	16,152	13,499	1,812	836	1	1	2	1
	32,959	36,654	16,552	4,090	6,820	4,013	2,710	2,468	1

	0 – 6 mths	6 – 12 mths	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	Over 5 yrs
Liquidity gap arising from financial instruments	4,041	(3,829)	(6,609)	(3,852)	(2,688)	(2,448)	55
Cumulative liquidity gap arising from financial instruments	4,041	212	(6,397)	(10,249)	(12,937)	(15,385)	(15,330)

mln RUB

2011	Carrying amount	Contractual cash flows	0 – 6 mths	6 – 12 mths	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	Over 5 yrs
Non-derivative financial assets									
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	4,878	4,878	4,027	276	247	124	111	20	73
Cash and cash equivalents	14,484	14,484	14,484	–	–	–	–	–	–
	19,362	19,362	18,511	276	247	124	111	20	73

	Carrying amount	Contractual cash flows	0 – 6 mths	6 – 12 mths	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	1,458	1,627	359	43	681	430	114	–	–
Unsecured bank loans	6,628	8,160	379	403	2,555	2,734	2,089	–	–
Unsecured bond issues	2,320	2,627	972	1,012	643	–	–	–	–
Finance lease liabilities	58	59	40	16	2	1	–	–	–
Trade and other payables (excluding taxes payable)	11,856	11,856	7,721	1,168	2,884	33	23	20	7
	22,320	24,329	9,471	2,642	6,765	3,198	2,226	20	7

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

	0 – 6 mths	6 – 12 mths	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	Over 5 yrs
Liquidity gap arising from financial instruments	9,040	(2,366)	(6,518)	(3,074)	(2,115)	–	66
Cumulative liquidity gap arising from financial instruments	9,040	6,674	156	(2,918)	(5,033)	(5,033)	(4,967)

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on borrowings denominated in USD (the US Dollar) and on finance lease liabilities denominated in EURO – the currencies other than the respective functional currency of Group entities, the Russian Rouble (RUB).

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2012		2011	
mln RUB	**USD -denominated**	**Euro-denominated**	USD -denominated	Euro-denominated
Cash and cash equivalents and bank deposits (over 3 months)	**6,960**	**399**	9,644	294
Loans and borrowings	**(5,518)**	**(2,829)**	(5,358)	(1,458)
Finance lease liabilities	**–**	**–**	–	(54)
Net exposure	**1,442**	**(2,430)**	4,286	(1,218)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
mln RUB	**2012**	2011	**2012**	2011
USD 1	**31.07**	29.39	**30.37**	32.20
EUR 1	**39.91**	40.90	**40.23**	41.67
GBP 1	**49.25**	47.12	**48.96**	49.63

Sensitivity analysis

A weakening of the RUB, as indicated below, against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

mln RUB	Equity	Profit or loss
2012		
USD (10% strengthening)	**144**	**144**
EUR (10% strengthening)	**(243)**	**(243)**
	(99)	**(99)**
2011		
USD (10% strengthening)	429	429
EUR (10% strengthening)	(122)	(122)
	307	307

A strengthening of the RUB against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivative instruments to manage interest rate risk exposure.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

mln RUB	Carrying amount 2012	2011
Fixed rate instruments		
Financial assets	**17,993**	15,056
Financial liabilities	**(13,080)**	(7,893)
	4,913	7,163
Variable rate instruments		
Financial liabilities	**(3,727)**	(2,571)
	(3,727)	(2,571)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased equity and profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
mln RUB	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2012				
Variable rate instruments	(37)	37	(37)	37
Cash flow sensitivity (net)	(37)	37	(37)	37
2011				
Variable rate instruments	(19)	19	(19)	19
Cash flow sensitivity (net)	(19)	19	(19)	19

(e) Fair values versus carrying amounts

Management believes that the fair values of its financial assets and liabilities approximate their carrying amounts.

(f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with it.

The capital structure of the Group consists of net debt (borrowings as detailed in note 23 offset by cash and bank balances) and equity of the Group (comprising issued capital and retained earnings as detailed in note 21). The Group is not subject to any externally imposed capital requirements.

The Group's debt to capital ratio at the end of the reporting period was as follows:

mln RUB	2012	2011
Total borrowings	**16,636**	10,406
Less: cash and cash equivalents	**(10,716)**	(14,484)
Net debt	**5,920**	(4,078)
Total equity	**38,063**	33,056
Debt to capital ratio at period end	**0.16**	(0.12)

Finance lease liabilities (RUB 171 million at 31 December 2012, RUB 58 million at 31 December 2011) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

27. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

mln RUB	2012	2011
Less than one year	49	105
Between one and five years	95	154
More than five years	202	110
	346	369

The Group leases a number of land plots for the purpose of construction of residential and commercial premises for sale, as well as land plots occupied by its own production and office facilities under operating leases.

Lease payments for land plots occupied by residential and commercial premises under construction are capitalized into the cost of those premises.

The leases typically run for the period of construction of premises. After these properties are constructed and sold, lease rentals are paid by the owners of those properties. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2012 an amount of RUB 57 million (year ended 31 December 2011: RUB 54 million) was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases, while RUB 6 million (year ended 31 December 2011: RUB 73 million) were capitalized into the cost of residential and commercial premises under construction.

28. CAPITAL COMMITMENTS

As at 31 December 2012 the Group does not have any capital commitments (31 December 2011: nil).

29. CONTINGENCIES

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group believes that all Group's sales transactions were taxed in accordance with Russian tax legislation. However, based on the uncertainty of legislation and arbitration practice, the tax authorities could take a different position and attempt to assess additional tax (including VAT), penalties and interest. Based on the uncertainty of practical application of the law the potential amount of such assessment cannot be reliably estimated. The Group has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

30. RELATED PARTY TRANSACTIONS

(a) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 11):

mln RUB	2012	2011
Salaries and bonuses	**282**	232
	282	232

(ii) Other transactions

Sales to key management personnel are disclosed below

	Transaction value		Outstanding balance	
mln RUB	2012	2011	2012	2011
Sale of apartments and premises	**91**	38	**–**	–
	91	38	**–**	–

(b) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

	Transaction value		Outstanding balance	
mln RUB	2012	2011	2012	2011
Other related parties	**66**	57	**7**	7
	66	57	**7**	7

All outstanding balances with related parties are to be settled in cash. None of the balances are secured.

(ii) Expenses

	Transaction value		Outstanding balance	
mln RUB	2012	2011	2012	2011
Other related parties	**30**	35	**1**	8
	30	35	**1**	8

All outstanding balances with related parties are to be settled in cash. None of the balances are secured.

(iii) Loans

	Amount loaned		Outstanding balance	
mln RUB	2012	2011	2012	2011
Loans given:				
Other related parties	**3**	108	**1**	2
Loans received:				
Other related parties	**(1)**	(1)	**(1)**	(1)
	2	107	**–**	1

Loans bear interest rates of 0.5% per annum (31 December 2011: ranging from 0% to 17%).

31. GROUP ENTITIES

Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2012	31 December 2011
CJSC "UK Etalon"	Russian Federation	**100.00%**	100.00 %
CJSC "Aktiv"	Russian Federation	**100.00%**	100.00 %
CJSC "TSUN LenSpetsSMU"	Russian Federation	**100.00%**	100.00 %
CJSC "SSMO LenSpetsSMU"	Russian Federation	**100.00%**	100.00 %
CJSC "Novator"	Russian Federation	**90.00%**	90.00 %
CJSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	**80.00%**	80.00 %
LLC "Etalon-Invest"	Russian Federation	**100.00%**	100.00 %
CJSC "Zatonskoe"	Russian Federation	**99.80%**	99.80 %
LLC "SPM-Zhilstroy"	Russian Federation	**100.00%**	100.00 %
CJSC "Slavyanskiy Stroitel"	Russian Federation	**100.00%**	67.00 %

As of 31 December 2012 the Group controlled 111 legal entities (31 December 2011: 88), including SPE described in note 3(a)(iv).

Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

32. EVENTS SUBSEQUENT TO THE REPORTING DATE

(a) Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 31 December 2012 for the total amount of RUB 1,397 million.

Subsequent to the reporting date the Group has obtained new loans for the total amount of RUB 627 million including additional tranche of a loan for the total amount of RUB 85 million with the interest rate of EURIBOR(6m)+3.2% (repayable at 2016), additional tranche of a loan for the total amount of RUB 490 million with the interest rate of 12% (repayable at 2014), and additional tranche of a loan for the total amount of RUB 51 million with the interest rate of 12.25% and repayable at 2015.

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