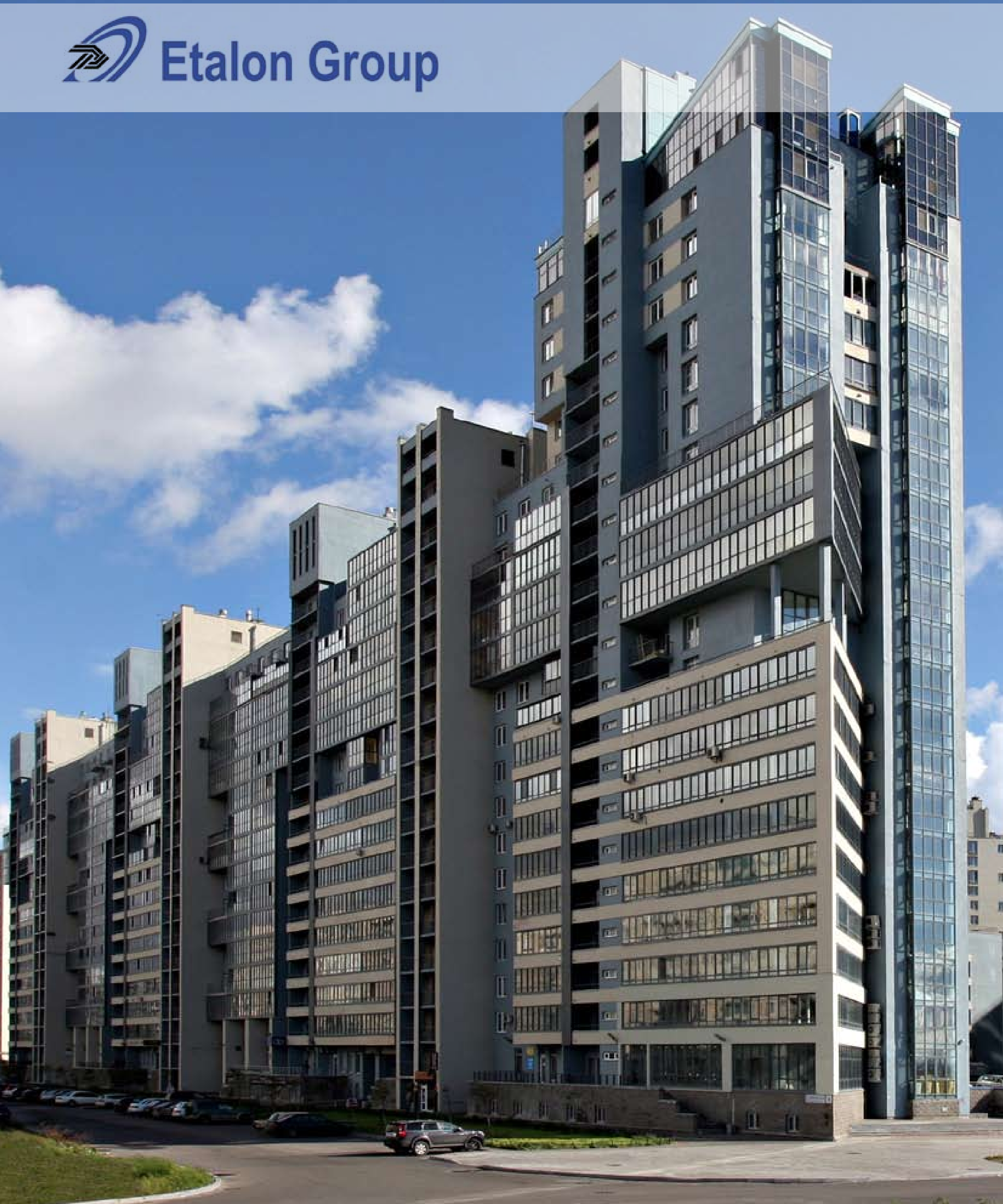
Etalon Group



CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

Contents

DIRECTORS' REPORT

Principal activity

The Group's principal activity 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

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 2011, 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.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited consolidated financial statements. If we become aware of any apparent material misstatements on inconsistencies we consider the implications for our report.

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

Independent auditor's report to the members of Etalon Group Limited (continued)

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 2011 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.

Ewan McGill

Ewan F McGill
for and on behalf of KPMG Channel Islands Limited

Chartered Accountants and Recognised Auditors

15 March 2012

mln RUB	Note	2011	2010
Revenue	7	22,741	20,316
Cost of sales		(11,888)	(11,078)
Gross profit		10,853	9,238
General and administrative expenses	9	(2,328)	(2,047)
Selling expenses		(854)	(589)
Other income / (expenses), net	10	(27)	(177)
Results from operating activities		7,644	6,425
Finance income	12	1,441	284
Finance costs	12	(60)	(667)
Net finance income / (costs)		1,381	(383)
Profit before income tax		9,025	6,042
Income tax expense	13	(1,585)	(1,355)
Profit for the period		7,440	4,687
Total comprehensive income for the period		7,440	4,687
Profit attributable to:			
Owners of the Company		7,332	4,628
Non-controlling interest		108	59
Profit for the period		7,440	4,687
Total comprehensive income attributable to:			
Owners of the Company		7,332	4,628
Non-controlling interest		108	59
Total comprehensive income for the period		7,440	4,687
Earnings per share			
Basic and diluted earnings per share (RUB)	22	26.83	20.70

These consolidated financial statements were approved by the Board of Directors on 15 March 2012 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 12 to 69.

mln RUB		2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,009	1,660
Other long-term investments	15	88	39
Trade and other receivables	18	551	904
Deferred tax assets	16	679	263
Other non-current assets		92	33
Total non-current assets		**3,419**	**2,899**
Current assets			
Inventories	17	32,047	25,651
Trade and other receivables	18	7,473	3,964
Short-term investments	19	1,327	341
Cash and cash equivalents	20	14,484	3,636
Other current assets		34	58
Total current assets		**55,365**	**33,650**
Total assets		**58,784**	**36,549**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	1	1
Share premium		15,438	1,951
Reserve for own shares		(459)	-
Retained earnings		17,704	10,157
Total equity attributable to equity holders of the Company		**32,684**	**12,109**
Non-controlling interest		372	459
Total equity		**33,056**	**12,568**
Non-current liabilities			
Loans and borrowings	23	8,456	6,702
Trade and other payables	25	48	261
Provisions	24	77	81
Deferred tax liabilities	16	98	40
Total non-current liabilities		**8,679**	**7,084**
Current liabilities			
Loans and borrowings	23	1,950	1,424
Trade and other payables	25	13,539	14,284
Provisions	24	1,560	1,189
Total current liabilities		**17,049**	**16,897**
Total equity and liabilities		**58,784**	**36,549**

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 12 to 69.

mln RUB	Attributable to equity holders of the Company						
	Share capital	Share premium	Reserve for own shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010	1	1,951	-	5,325	7,277	774	**8,051**
Total comprehensive income for the year							
Profit for the year	-	-	-	4,628	4,628	59	**4,687**
Other comprehensive income							
Total comprehensive income for the year	-	-	-	4,628	4,628	59	**4,687**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	-	(32)	**(32)**
Total contributions by and distributions to owners	-	-	-	-	-	(32)	**(32)**
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Changes in ownership interest in subsidiaries	-	-	-	204	204	(342)	**(138)**
Total transactions with owners	-	-	-	204	204	(374)	**(170)**
Balance at 31 December 2010	**1**	**1,951**	**-**	**10,157**	**12,109**	**459**	**12,568**

mln RUB	Attributable to equity holders of the Company						
	Share capital	Share premium	Reserve for own shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	1	1,951	-	10,157	12,109	459	**12,568**
Total comprehensive income for the year							
Profit for the year	-	-	-	7,332	7,332	108	**7,440**
Other comprehensive income							
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							
Dividends to equity holders	-	-	-	-	-	-	**-**
Shares issued	-	13,487	-	-	13,487	-	**13,487**
Own shares acquired (Note 21)	-	-	(459)		(459)	-	**(459)**
Total contributions by and distributions to owners	-	13,487	(459)	-	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	-	13,487	(459)	215	13,243	(195)	**13,048**
Balance at 31 December 2011	**1**	**15,438**	**(459)**	**17,704**	**32,684**	**372**	**33,056**

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 12 to 69.

mln RUB	Notes	2011	2010
OPERATING ACTIVITIES:			
Profit for the period		7,440	4,687
Adjustments for:			
Depreciation	14	265	286
Gain on disposal of property, plant and equipment		(92)	(1)
Loss on disposal of subsidiaries		1	5
Gain on disposal of other investments		(24)	-
Finance (income) / costs, net		(1,425)	490
Income tax expense		1,585	1,355
Cash from operating activities before changes in working capital and provisions		**7,750**	**6,822**
Change in inventories		(5,308)	1,520
Change in accounts receivable		(2,893)	(201)
Change in accounts payable		(818)	(6,659)
Change in provisions	24	367	(736)
Change in other current assets		24	(33)
Income tax paid		(1,897)	(1,083)
Interest paid		(1,098)	(814)
Net cash used in operating activities		**(3,873)**	**(1,184)**
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		117	31
Interest received		140	93
Acquisition of property, plant and equipment		(726)	(329)
Loans given		(253)	(106)
Loans repaid		234	61
Acquisition of subsidiaries, net of cash acquired		-	9
Disposal of subsidiaries, net of cash disposed of		(17)	(37)
Acquisition of other investments (bank deposits)		(1,027)	(277)
Net cash used in investing activities		**(1,532)**	**(555)**
FINANCING ACTIVITIES:			
Proceeds from initial public offering		13,487	-
Acquisition of non-controlling interest		(3)	(97)
Proceeds from disposal of non-controlling interest		24	-
Proceeds from borrowings		6,353	10,794
Repayments of borrowings		(4,821)	(8,620)
Acquisition of own shares		(459)	-
Dividends paid		-	(38)
Net cash from financing activities		**14,581**	**2,039**
Net increase in cash and cash equivalents		9,176	300
Cash and cash equivalents at the beginning of the period		3,636	3,416
Effect of exchange rate fluctuations on cash and cash equivalents		1,672	(80)
Cash and cash equivalents at the end of the period	20	**14,484**	**3,636**

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 12 to 69.

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, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. 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 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.

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 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 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.

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 2011.

(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. Other leases are operating leases and the leased assets are not recognised on the Group's 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 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 generally 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.

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 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 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 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.

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 2011 the Group has applied the revised IAS 24 Related Party Disclosures (2010). The revised standard introduced an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard has been applied retrospectively. 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 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- ***Amended IFRS 7 Disclosures*** – Transfers of Financial Assets introduces 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 is effective for annual periods beginning on or after 1 July 2011.

- 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.

- Amendment to IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets. The amendment introduces an exception to the current 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 is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

- 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 intend to adopt these standards early. 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 intend to adopt this standard early. 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 2012. 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 contrats.

The Group accounts for such elements of sales contracts as 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 2011 or 2010.

Before 31 December 2010, segment information was prepared on an ad hoc basis and was not formalized. However, the new structure of the reporting for the future periods has been developed since that date. Segment information for the year ended 31 December 2010 has been recalculated according to the new structure and is presented below.

5. Operating segments

(a) Information about reportable segments

mln RUB	Residential development		Construction services		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	19,359	16,853	1,532	1,631	650	764	**21,541**	**19,248**
Inter-segment revenue	-	-	7,425	5,259	1,446	833	**8,871**	**6,092**
Total segment revenue	19,359	16,853	8,957	6,890	2,096	1,597	30,412	25,340
Gross profit	9,091	8,984	879	714	541	86	**10,511**	**9,784**
Reportable segment assets: inventory	31,935	25,572	544	381	1,261	1,358	**33,740**	**27,311**
Reportable segment liabilities: advance from customers	7,772	11,503	1,739	1,657	180	176	**9,691**	**13,336**

(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	**2011**	**2010**	**2011**	**2010**
St, Petersburg metropolitan area	20,334	20,064	2,497	2,785
Moscow metropolitan area	2,407	252	922	114
	22,741	**20,316**	**3,419**	**2,899**

Major customer

During the year ended 31 December 2011 and 2010 no customer represented more than 10% of the Group’s total revenue.

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

mln RUB	2011	2010
Revenues		
Total revenue for reportable segments	30,412	25,340
Other revenue	1,200	1,068
Elimination of inter-segment revenue	(8,871)	(6,092)
Consolidated revenue	22,741	20,316
Profit or loss		
Gross profit for reportable segments	10,511	9,784
General and administrative expenses	(2,328)	(2,047)
Selling expenses	(854)	(589)
Other income / (expenses), net	(27)	(177)
Finance income	1,441	284
Finance costs	(60)	(667)
Elimination of inter-segment profit	263	(651)
Other profit or loss	79	105
Consolidated profit before income tax	9,025	6,042

	2011	2010
Assets		
Total assets for reportable segments: inventory	33,740	27,311
Elimination of unrealised gain	(1,698)	(1,671)
Other	5	11
Total inventories	32,047	25,651
Liabilities		
Total liabilities for reportable segments: advances from customers	9,691	13,336
Elimination of intersegment advances	(1,338)	(1,555)
Other unallocated amounts	380	133
Total advances from customers	8,733	11,914

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. Depreciation, 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

(a) Acquisition of subsidiaries

There were no significant acquisitions of controlling interests in businesses during the year ended 31 December 2011 and 2010.

(b) Changes in non-controlling interests

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.

During the year ended 31 December 2011 the Group acquired additional interests in a number of subsidiaries from third parties. The Group recognised a decrease in non-controlling interest of RUB 8 million. The difference in the amount of RUB 5 million between the book value of net assets acquired and consideration paid was recognized directly in equity.

During the year ended 31 December 2011 the Group ceased control over a number of cooperatives (see note 3(a)(iv)), some of which having deficit balance of non-controlling interest, that resulted in increase in non-controlling interest by RUB 41 million.

During the year ended 31 December 2010 the Group acquired additional interests in a number of subsidiaries from the Group’s ultimate controlling party and third parties. The Group recognised a decrease in non-controlling interest of RUB 33 million. Contribution from shareholders of RUB 10 million and distribution to shareholders of RUB 71 million was recognised directly in equity.

(c) Disposal of subsidiaries due to loss of control

During the year ended 31 December 2010 the Group ceased the consolidation of four subsidiaries that were previously consolidated based on management contracts with CJSC “UK Etalon” due to the termination of those contracts. The subsidiaries contributed RUB 6 million to the net profit for the year ended 31 December 2010, including the loss on disposal of RUB 12 million, net assets at the date of disposal amounted to RUB 58 million. The Group recognised a decrease in non-controlling interest of RUB 45 million.

7. Revenue

mln RUB	2011	2010
Sale of flats	18,241	14,560
Construction services	1,532	1,631
Sale of built-in commercial premises	837	1,430
Sale of stand-alone commercial premises	133	539
Sale of parking places	281	863
Sale of construction materials	517	225
Rental revenue	218	118
Other revenue	982	950
Total revenues	**22,741**	**20,316**

8. Construction contracts

mln RUB	2011	2010
Revenue recognised during the year	1,237	1,203
Costs incurred	(961)	(965)
Recognised profits during the year	**276**	**238**

	2011	2010
For contracts in progress - aggregate amount of costs incurred and recognised profits to date	1,483	955
Unbilled receivables	9	8
Billings in excess of work completed	117	119
Advances for which the related work has not started	-	99
Retentions relating to construction contracts	38	25

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	2011	2010
Payroll and related taxes	1,667	1,433
Audit and consulting services	110	123
Services	128	104
Bank fees and commissions	46	16
Repair and maintenance	46	92
Materials	36	31
Social expenses	-	3
Other	295	245
Total	**2,328**	**2,047**

10. Other income (expenses), net

mln RUB	2011	2010
Other income		
Gain on disposal of property, plant and equipment	92	1
Gain on disposal of equity accounted investees	24	-
Fees and penalties received	6	31
	122	**32**
Other expenses		
Loss on disposal of subsidiaries	(1)	(12)
Other expenses	(148)	(197)
	(149)	**(209)**
Other income / (expenses), net	**(27)**	**(177)**

11. Personnel costs

mln RUB	2011	2010
Wages and salaries	3,036	2,291
Contributions to State pension fund	515	308
	3,551	**2,599**

During the year ended 31 December 2011, personnel costs and related taxes included in cost of sales amounted to RUB 1 537 million (year ended 31 December 2010: RUB 1 158 million).

A part of wages and salaries attributable to initial public offering are included directly in equity, see note 21.

12. Finance income and finance costs

mln RUB	2011	2010
Recognised in profit or loss		
Finance income		
Net foreign exchange gain	1,168	-
Interest income on bank deposits	140	89
Unwinding of discount on trade receivables	121	75
Interest income on loans and receivables	6	4
Gain on write-off of accounts payable	6	10
Allowance for doubtful accounts receivable	-	97
Gain on repurchase of CLNs	-	9
Finance income	**1,441**	**284**
Finance costs		
Interest expense on loans and finance leases	(10)	(602)
Allowance for doubtful accounts receivable	(50)	-
Net foreign exchange loss	-	(65)
Finance costs	**(60)**	**(667)**
Net finance income / (costs) recognised in profit or loss	**1,381**	**(383)**

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

mln RUB	2011	2010
Borrowing costs capitalised during the period	1,162	302
Weighted average capitalisation rate	12.54%	12.50%

During the year ended 31 December 2011, borrowing costs in the amount of RUB 169 million (year ended 31 December 2010: nil) that have been capitalised into the cost of real estate properties under construction, 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 (year 2010: 20%).

mln RUB	2011	2010
Current tax expense		
Current year	1,884	1,309
Adjustment for prior years	77	-
	1,961	1,309
Deferred tax expense		
Origination and reversal of temporary differences	(376)	46
Income tax expense	**1,585**	**1,355**

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2010: 20%):

mln RUB	2011	2010
Profit before tax	9,025	6,042
Theoretical income tax at statutory rate of 20%	1,805	1,208
Adjustments due to:		
Expenses not deductible and income not taxable for tax purposes, net	(220)	149
Effect of different tax rates	-	(2)
Income tax expense	**1,585**	**1,355**

14.

Property, plant and equipment

During the year ended 31 December 2011, depreciation expense of RUB 239 million (year ended 31 December 2010: RUB 242 million) has been charged to cost of goods sold, RUB 27 million (year ended 31 December 2010: RUB 7 million) to cost of real estate properties under construction, RUB 1 million (year ended 31 December 2010: RUB 2 million) to selling expenses and RUB 25 million (year ended 31 December 2010: RUB 42 million) to general and administrative expenses.

(a) Security

At 31 December 2011 properties with a carrying amount of RUB 85 million (31 December 2010: RUB 88 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 2011 the net book value of leased plant and machinery was RUB 270 million (31 December 2010: RUB 288 million). The leased equipment secures lease obligations.

14.

Property, plant and equipment

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2010	548	1,493	61	85	45	64	**2,296**
Additions	219	51	15	19	-	35	**339**
Acquired through business combinations	6	16	2	-	-	-	**24**
Disposals	(77)	(63)	(7)	(5)	-	(5)	**(157)**
Transfer to inventory	-	-	-	-	(33)	-	**(33)**
Transfers	13	1	-	1	-	(14)	**1**
Balance at 31 December 2010	709	1,498	71	100	12	80	**2,470**
Balance at 1 January 2011	709	1,498	71	100	12	80	**2,470**
Additions	102	149	34	13	-	57	**355**
Reclassificaction 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**
Depreciation and impairment losses							
Balance at 1 January 2010	(165)	(382)	(30)	(57)	-	-	**(634)**
Depreciation for the period	(71)	(195)	(10)	(17)	-	-	**(293)**
Disposals	66	43	4	4	-	-	**117**
Balance at 31 December 2010	(170)	(534)	(36)	(70)	-	-	**(810)**
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)**
Carrying amounts							
At 1 January 2010	383	1,111	31	28	45	64	**1,662**
At 31 December 2010	539	964	35	30	12	80	**1,660**
At 31 December 2011	1,001	901	55	27	12	13	**2,009**

15. Other long-term investments

mln RUB	2011	2010
Loans, at amortised cost	67	33
Other	21	6
	88	**39**

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	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Property, plant and equipment	115	45	(172)	(96)	(57)	(51)
Investments	11	20	-	-	11	20
Inventories	714	1,494	(28)	(19)	686	1,475
Trade and other receivables	110	77	(499)	(369)	(389)	(292)
Deferred expenses	180	9	(118)	-	62	9
Loans and borrowings	13	12	(13)	(17)	-	(5)
Provisions	147	-	(23)	(23)	124	(23)
Trade and other payables	336	227	(345)	(1,426)	(9)	(1,199)
Tax loss carry-forwards	95	94	-	-	95	94
Other	68	248	(10)	(53)	58	195
Tax assets/(liabilities)	1,789	2,226	(1,208)	(2,003)	581	223
Set off of tax	(1,110)	(1,963)	1,110	1,963	-	-
Net tax assets/(liabilities)	**679**	**263**	**(98)**	**(40)**	**581**	**223**

(b) Unrecognised deferred tax liability

At 31 December 2011 a deferred tax liability of RUB 829 million (31 December 2010: RUB 562 million) arising on temporary differences of RUB 16 580 million (31 December 2010: RUB 11 248 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.

16.

Deferred tax assets and liabilities

(c) Movement in temporary differences during the year

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**

mln RUB	1 January 2010	Recognised in profit or loss	Acquired/ disposed of	31 December 2010
Property, plant and equipment	25	(53)	(23)	(51)
Investments	2	-	18	20
Inventories	1,505	(41)	11	1,475
Trade and other receivables	(1,886)	1,582	12	(292)
Deferred expenses	19	(10)	-	9
Loans and borrowings	107	(93)	(19)	(5)
Provisions	(39)	16	-	(23)
Trade and other payables	294	(1,493)	-	(1,199)
Tax loss carry-forwards	74	21	(1)	94
Other	175	25	(5)	195
	276	**(46)**	**(7)**	**223**

17.

Inventories

mln RUB	2011	2010
Own flats under construction	14,610	12,486
Own flats	7,488	7,082
Built-in and stand-alone premises under construction	6,682	4,129
Built-in premises	2,840	2,484
Construction materials	473	297
Other	97	92
	32,190	**26,570**
Less: Allowance for obsolete inventory	(143)	(919)
Total	**32,047**	**25,651**

During the year ended 31 December 2010 the Group has acquired rights on the certain land plot with the total value of RUB 473 million, of which RUB 99 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 2011 construction permit has not been received.

The following is movement in the allowance for obsolete inventory:

mln RUB	2011	2010
Balance at the beginning of the period	919	829
Change in allowance for obsolete inventory	(776)	90
Balance at end of the period	**143**	**919**

The amount of allowance of RUB 137 million out of RUB 143 million relates to one item of stand-alone commercial property (31 December 2010: RUB 437 million). 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 2011 the gross value of the property item equals to RUB 900 million (31 December 2010: RUB 891 million). The change in allowance is based on new rent contracts concluded during the year ended 31 December 2011 that increases estimated future cash flows.

17. Inventories

As of 31 December 2010 the Group additionally provided RUB 457 million for land lease and other infrastructure payments that were capitalised into the costs of construction of 2 items of stand-alone properties since those properties were not expected to be completed. As of 31 December 2011 the Group has resumed the construction of one of those properties based on the new project concept and reversed an accumulated impairment loss of RUB 396 million. As of 31 December 2011 the Group has also reversed the provision of RUB 61 million (31 December 2010: RUB 61 million) and derecognized previously capitalized costs of RUB 61 million with respect to the second item of stand-alone commercial property.

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 1 514 million as at 31 December 2011 (31 December 2010: RUB 855 million). The Group actively seeks for the buyer for these properties.

Inventories with a carrying amount of RUB 468 million (31 December 2010: RUB 100 million) are pledged as security for borrowings, see note 23.

18.

Trade and other receivables

mln RUB	2011	2010
Long-term		
Trade receivables	505	560
Advances paid to suppliers	43	274
Other receivables	3	70
	551	**904**
Short-term		
Advances paid to suppliers	3,549	1,669
VAT recoverable	868	1,111
Trade receivables	2,777	966
Trade receivables due from related parties	6	101
Income tax receivable	72	56
Unbilled receivables	9	8
Other receivables due from related parties	1	6
Other taxes receivable	8	8
Other receivables	336	161
	7,626	**4,086**
Less: Allowance for doubtful accounts receivable	(153)	(122)
Short-term less allowance	**7,473**	**3,964**
Total	**8,024**	**4,868**

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	2011	2010
Bank deposits (91-360 days)	1,284	277
Other	43	64
	1,327	**341**

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	2011	2010
Cash in banks, in USD	9,644	149
Cash in banks, in RUB	643	376
Cash in banks, in EUR	294	169
Cash in transit	11	29
Petty cash	2	3
Short-term deposits (less than 90 days)	3,890	2,910
Cash and cash equivalents in the statement of financial position	**14,484**	**3,636**
Cash and cash equivalents in the statement of cash flows	**14,484**	**3,636**

The Group keeps major bank balances in the following Russian banks - Bank St. Petersburg, Sberbank, Rosbank, 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 and share premium

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

Number of shares unless otherwise stated	Ordinary shares	
	30 June 2011	**31 December 2010**
Authorised shares		
Par value at beginning of year	0.01 GBP	0.01 GBP
On issue at beginning of year	1,117,647	1,117,647
Issued as a result of 1:200 share split	222,411,753	-
Par value at end of year	0.00005 GBP	0.01 GBP
New shares issued during the year	71,428,571	-
Own shares acquired	(2,838,000)	-
On issue at end of year, fully paid	**292,119,971**	**1,117,647**

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.

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 will continue until 23 November 2012, unless terminated earlier by the Company. As of 31 December 2011 the Group has acquired 2 838 000 own shares (1% of issued share capital) for the consideration of RUB 459 million.

(b) 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 30 June 2011 the total of subsidiaries' retained earnings, including the profits for the current period were RUB 11 100 million (31 December 2010: RUB 11 028 million).

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	2011	2010
Issued shares at 1 January	223,529,400	223,529,400
Effect of shares issued for cash in April	49,902,152	-
Effect of own shares acquired in December	(125,402)	-
Weighted average number of shares for the year ended 31 December	**273,306,150**	**223,529,400**

On 1 January 2010, the Company had 1 117 647 ordinary shares. As a result of the 1:200 share split in March 2011, 222 411 753 ordinary shares were issued to existing shareholders for no additional consideration. Therefore, for the purpose of calculation of earnings per share, the number of ordinary shares outstanding at 1 January 2010 (the earliest period presented) was adjusted for 222 411 753 shares as if the share split had occurred at 1 January 2010.

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	2011	2010
Non-current liabilities		
Secured bank loans	1,443	374
Unsecured bank loans	6,405	4,084
Unsecured bond issues	608	2,244
	8,456	**6,702**
Current liabilities		
Current portion of secured bank loans	15	49
Current portion of unsecured bank loans	223	-
Current portion of secured loans from other parties	1	7
Current portion of unsecured bond issues	1,711	1,368
	1,950	**1,424**

On 15 November 2010 the Group has issued loan participation notes (LPN), classified as a 9.75% USD-denominated unsecured bank loan in the table below.

On 27 May 2010 the Group has placed its 2 million bonds on the Russian public debt market for the total amount of RUB 2 000 million (classified as a 14.50% RUB-denominated unsecured bonds in the table below).

23.

Loans and borrowings

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

mln RUB	Currency	Nominal interest rate	Year of maturity	31 December 2011 Face value	31 December 2011 Carrying amount	31 December 2010 Face value	31 December 2010 Carrying amount
Secured bank loan				**1,458**	**1,458**	**423**	**423**
Secured bank loan	USD	12.50%	2011	-	-	49	49
Secured bank loan	EUR	EURIBOR +7.00%	2014	1,242	1,242	374	374
Secured bank loan	EUR	EURIBOR +7.09%	2015	216	216	-	-
Unsecured bank loan				**6,673**	**6,628**	**4,143**	**4,084**
Unsecured bank loan	USD	LIBOR +6.50%	2014	469	469	-	-
Unsecured bank loan	RUB	9.50%	2015	1,250	1,250	-	-
Unsecured bank loan	USD	LIBOR +6.5%	2015	644	644	-	-
Unsecured bank loan	RUB	9.90%	2014	-	-	600	600
Unsecured bank loan	USD	9.75%	2015	4,290	4,245	3,543	3,484
Unsecured bank loan	RUR	14.00%	2012	20	20	-	-
Secured loans from other parties				**1**	**1**	**7**	**7**
Secured loan from other party	RUB	0.50%	2011	1	1	7	7
Unsecured bond issues				**2,328**	**2,319**	**3,638**	**3,612**
Unsecured bonds	RUB	16.00%	2012	806	802	1,609	1,595
Unsecured bonds	RUB	14.50%	2013	1,522	1,517	2,029	2,017
				10,460	**10,406**	**8,211**	**8,126**

Bank loans are secured by:

- Buildings with a carrying amount of RUB 85 million see note 14.
- Inventory with a carrying amount of RUB 468 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 RUR	Warranties	Provision for deferred works	Total
Balance at 1 January 2010	83	1,923	2,006
Provisions made during the year	7	1,170	1,177
Provisions used during the year	(9)	(1,904)	(1,913)
Balance at 31 December 2010	**81**	**1,189**	**1,270**
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**
Non-current	77	-	77
Current	-	1,560	1,560
	77	**1,560**	**1,637**

(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	2011	2010
Long-term		
Advances from customers	2	74
Finance lease liabilities	3	44
Trade payables	32	61
Other payables	10	82
	48	**261**
Short-term		
Advances from customers	8,731	10,215
Trade payables	2,271	2,540
Billings in excess of work completed	117	119
Payroll liabilities	242	245
Income tax payable	447	367
VAT payable	1,140	427
Finance lease liabilities	55	84
Other taxes payable	86	72
Other payables	450	215
	13,539	**14,284**
Total	**13,587**	**14,545**

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 by means of transfer of real estate properties completed during 2011. The amount, which remains to be settled, equals to RUB 785 million as at 31 December 2011 (31 December 2010: RUB 2 252 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 3 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	2011			2010		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	56	1	55	91	7	84
Between one and five years	3	-	3	45	1	44
	59	**1**	**58**	**136**	**8**	**128**

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

mln RUB			2011		2010	
Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
EUR	8.79 - 9.77 %	2012	54	54	124	124
RUB	17.71%	2012 - 2013	4	4	4	4
			58	**58**	**128**	**128**

26. Financial instruments and risk management

(a) Overview

The Group's financial instruments as at 31 December 2011, 31 December 2010 are categorized as follows:

mln RUB	2011	2010
Financial assets at amortized cost		
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	4,878	2,124
Cash and cash equivalents	14,484	3,636
	19,362	**5,760**
Financial liabilities at amortized costs	**22,320**	**21,805**

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.

(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 2011 (31 December 2010: 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 2011 the Group had not provided any financial guarantees to entities outside the Group (31 December 2010: 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	**2011**	**2010**
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	4,878	2,124
Cash and cash equivalents	14,484	3,636
	19,362	**5,760**

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:

mln RUB	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	3,105	-	1,147	(1)
Past due 0 - 30 days	58	-	104	-
Past due 31 - 120 days	65	-	122	-
Past due more than 120 days	60	(60)	254	(32)
	3,288	**(60)**	**1,627**	**(33)**

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

mln RUB	2011	2010
Balance at 1 January	33	42
Increase during the year	54	20
Write-offs	(1)	(2)
Decrease due to reversal	(14)	(27)
Balance at 31 December	**72**	**33**

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

mln RUB	2011	2010
Balance at 1 January	89	177
Increase during the year	22	52
Write-offs	(2)	(8)
Decrease due to reversal	(28)	(132)
Balance at 31 December	**81**	**89**

(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 a 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.

Contractual maturities of financial liabilities were as follows:

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 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	-	-
Secured loans from other parties	1	1	-	1	-	-	-	-	-
Unsecured bond issues	2,319	2,626	972	1,011	643	-	-	-	-
Finance lease liabilities	58	58	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**

mln RUB

2010	**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	423	471	11	62	18	380	-	-	-
Unsecured bank loans	4,084	5,844	244	254	505	1,269	2,412	1,160	-
Secured loans from other parties	7	7	-	7	-	-	-	-	-
Unsecured bond issues	3,612	4,422	871	925	1,983	643	-	-	-
Finance lease liabilities	128	137	44	43	50	-	-	-	-
Trade and other payables (excluding taxes payable)	13,551	13,551	13,154	181	185	28	-	3	-
	21,805	**24,432**	**14,324**	**1,472**	**2,741**	**2,320**	**2,412**	**1,163**	**-**

(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:

mln RUB	USD-denominated	Euro-denominated	USD-denominated	EUR-denominated
	2011		2010	
Cash and cash equivalents	9,644	294	1,502	385
Loans and borrowings	(5,358)	(1,458)	(3,533)	(374)
Finance lease liabilities	-	(54)	-	(124)
Gross exposure	**4,286**	**(1,218)**	**(2,031)**	**(113)**

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD 1	29.39	30.38	32.20	30.48
EUR 1	40.90	40.22	41.67	40.33
GBP 1	47.12	46.93	49.63	47.26

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 2010, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

mln RUB	Equity	Profit or loss
2011		
USD (10% strengthening)	429	429
EUR (10% strengthening)	(122)	(122)
	307	**307**
2010		
USD (10% strengthening)	(203)	(203)
EUR (10% strengthening)	(11)	(11)
	(214)	**(214)**

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	
	2011	**2010**
Fixed rate instruments		
Financial assets	15,056	4,028
Financial liabilities	(7,893)	(7,880)
	7,163	**(3,852)**
Variable rate instruments		
Financial liabilities	2,571	(374)
	2,571	**(374)**

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.

mln RUB	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2011				
Variable rate instruments	(19)	19	(19)	19
Cash flow sensitivity (net)	(19)	19	(19)	19
2010				
Variable rate instruments	(4)	4	(4)	4
Cash flow sensitivity (net)	(4)	4	(4)	4

(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	2011	2010
Total borrowings	10,406	8,126
Less: cash and cash equivalents	(14,484)	(3,636)
Net debt	(4,078)	4,490
Total equity	33,056	12,568
Debt to capital ratio at period end	(0.12)	0.36

Finance lease liabilities (RUB 58 million at 31 December 2011, RUB 128 million at 31 December 2010) 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	2011	2010
Less than one year	105	75
Between one and five years	154	144
More than five years	110	44
	369	**263**

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 2011 an amount of RUB 54 million (year ended 31 December 2010: RUB 33 million) was recognised as an expense in the statement of comprehensive income in respect of operating leases, while RUB 73 million (year ended 31 December 2010: RUB 61 million) were capitalized into the cost of residential and commercial premises under construction.

28. Capital commitments

As at 31 December 2011 the Group does not have any capital commitments (31 December 2010: 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 preliminary 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	2011	2010
Salaries and bonuses	232	157
	232	**157**

(i) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		Outstanding balance	
mln RUB	2011	2010	2011	2010
Sale of apartments and premises	38	72	-	-
	38	**72**	**-**	**-**

(b) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance	
mln RUB	2011	2010	2011	2010
Other related parties	57	41	7	40
Equity accounted investees	-	38	-	97
	57	**79**	**7**	**137**

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	2011	2010	2011	2010
Other related parties	35	34	8	8
Equity accounted investees	-	21	-	5
	35	**55**	**8**	**13**

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	**2011**	**2010**	**2011**	**2010**
Loans given:				
Equity accounted investees	-	10	-	10
Other related parties	108	6	2	4
Loans received:				
“Other related parties”	(1)	-	(1)	-
	107	**16**	**1**	**14**

Loans bear interest rates ranging from 0% to 17% per annum (31 December 2010: 0% to 17%).

In May 2010 20% shareholdings in subsidiary CJSC “ZSM “Etalon” was sold by the Group’s shareholder to CJSC “SSMO LenSpetsSMU” for the consideration of RUB 91 million.

31. Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	30 December 2011	31 December 2010
CJSC “UK Etalon”	Russian Federation	100.00%	99.50%
CJSC “SSMO LenSpetsSMU”	Russian Federation	100.00%	98.01%
CJSC “Zatonskoe”	Russian Federation	99.80%	80.82%
CJSC “TSUN LenSpetsSMU”	Russian Federation	100.00%	98.90%
CJSC “Aktiv”	Russian Federation	100.00%	98.01%
CJSC “Novator”	Russian Federation	90.00%	89.40%
CJSC “LenSpetsSMU-Reconstruktsiya”	Russian Federation	80.00%	79.23%

As of 31 December 2011 the Group controlled 88 legal entities (31 December 2010: 83), 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 2011 for the total amount of RUB 271 million.

Subsequent to the reporting date the Group has obtained new loans for the total amount of RUR 886 million including additional tranche of a loan for the total amount of RUR 485 million with the interest rate of EURIBOR+7% and a new loan for the total amount of RUR 401 million with the interest rate of 12%. Both loans are repayable at 2014.