

PROSPECTUS



Etalon Group
Etalon Group Limited



Offering of 82,142,857 Ordinary Shares of Etalon Group Limited in the form of Global Depositary Receipts

(subject to an Over-allotment Option in respect of up to an additional 12,321,428 Global Depositary Receipts)

Offer Price of USD 7.00 per Global Depositary Receipt

This prospectus relates to an offering (the “**Offering**”) by Etalon Group Limited, a company incorporated under the laws of Guernsey with registered number 48002 (the “**Company**”), of 71,428,571 global depositary receipts (“**GDRs**”), representing ordinary shares (“**Ordinary Shares**”) of the Company, each with a nominal value of GBP 0.00005, with one GDR representing an interest in one Ordinary Share, and by the selling shareholders named herein (together, the “**Selling Shareholders**”) of 10,714,286 GDRs.

This document, upon approval by the U.K. Financial Services Authority (the “**FSA**”), comprises a prospectus relating to the Company prepared in accordance with the prospectus rules of the FSA (the “**Prospectus Rules**”), made under section 73A of the Financial Services and Markets Act 2000 (the “**FSMA**”). Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA (the “**U.K. Listing Authority**”), for a listing of up to 294,957,971 GDRs in issue as at the date of Admission (as defined below), consisting of 82,142,857 GDRs to be issued on or about 20 April 2011 (the “**Closing Date**”), up to 12,321,428 additional GDRs pursuant to the Over-allotment Option and up to 200,493,686 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with The Bank of New York Mellon, as depositary (the “**Depositary**”), to be admitted to the official list of the U.K. Listing Authority (the “**Official List**”) and (2) to the London Stock Exchange plc (the “**London Stock Exchange**”), for such additional GDRs to be admitted to trading on the London Stock Exchange’s main market for listed securities (the “**Main Market**”), through its International Order Book (regulated market segment) (the “**IOB**”), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 15 April 2011. Admission to the Official List and the Main Market (“**Admission**”), and unconditional trading of the GDRs through the IOB is expected to take place on or about 20 April 2011. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** The Company’s GDRs are expected to be traded on the IOB under the symbol “**ETLN**”.

The GDRs are being offered (i) in the United States to certain qualified institutional buyers (“**QIBs**”) as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the US Securities Act of 1933, as amended (the “**Securities Act**”), or pursuant to another exemption from the registration requirements of the Securities Act, and (ii) outside the United States and the Russian Federation to certain institutional investors in offshore transactions in reliance on Regulation S under the Securities Act (“**Regulation S**”).

Strata Investments Limited has granted to Renaissance Securities (Cyprus) Limited (the “**Stabilising Manager**”), on behalf of the Underwriters, an over-allotment option (the “**Over-allotment Option**”) to acquire up to 12,321,428 additional Ordinary Shares in the form of GDRs at the Offer Price for the purposes of covering over-allotments, if any, made in connection with the Offering and to cover any short positions resulting from stabilisation transactions. The Over-allotment Option is exercisable for a period not exceeding 30 days following the announcement of the Offer Price (the “**Stabilisation Period**”).

See “Risk Factors” beginning on page 6 to read about factors you should consider before buying the GDRs. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the GDRs, see “*Terms and Conditions of The Global Depositary Receipts*” and “*Selling and Transfer Restrictions*”.

The GDRs are offered by the Underwriters (as defined under “*Subscription and Sale*”) when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. The GDRs will be issued in global form. The GDRs offered and sold in the United States (the “**Rule 144A GDRs**”) will be evidenced by a Master Rule 144A Global Depositary Receipt Certificate (the “**Master Rule 144A GDR Certificate**”) registered in the name of Cede & Co., as nominee for The Depositary Trust Company (“**DTC**”), and the GDRs offered and sold outside the United States (the “**Regulation S GDRs**”) will be evidenced by a Master Regulation S Global Depositary Receipt Certificate (the “**Master Regulation S GDR Certificate**”) and, together with the Master Rule 144A GDR Certificate, the “**Master GDR Certificates**”) registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for The Bank of New York Mellon, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), and Clearstream Banking, société anonyme (“**Clearstream**”). The Ordinary Shares represented by the GDRs will be held by BNY (Nominees) Limited, as custodian (the “**Custodian**”), for the Depositary. Except as described here, beneficial interests in the Master GDR Certificates will be shown as, and transfers thereof will be effected only through DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs. It is expected that delivery of the GDRs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See “*Settlement and Delivery*”.

Joint Global Coordinators and Joint Bookrunners

Credit Suisse

Renaissance Capital

VTB Capital

IMPORTANT INFORMATION

By accepting delivery of this prospectus, you agree to the following. This prospectus is being furnished by the Company and the Selling Shareholders solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

The Company accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of the Company's knowledge, in accordance with the facts and contains no omissions likely to affect its import.

None of the Underwriters makes any representation, express or implied, nor accepts any responsibility, with respect to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholders or the Underwriters that any recipient of this prospectus should subscribe for or purchase the GDRs. Each potential subscriber or purchaser of GDRs should determine for itself the relevance of the information contained in this prospectus, and its subscription or purchase of GDRs should be based upon such investigation, as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules of the FSA, which comply with the provisions of Directive 2003/71/EC (the "**Prospectus Directive**") for the purpose of giving information with regard to the Company, the Selling Shareholders and the GDRs.

This prospectus is personal to each offeree and does not constitute an offer to any other person to the public generally to purchase or otherwise acquire the GDRs. In making an investment decision regarding the GDRs, you must rely on your own examination of us and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. None of the Company, the Selling Shareholders or the Underwriters has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate only as of its date. Our business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

The contents of the Company's websites, or the websites of any member of the Group, do not form any part of this document.

Standard & Poor's Financial Services, LLC is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the Regulation (EU) No 1060/2009 ("**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing GDRs. None of the Company, the Selling Shareholders or the Underwriters makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Underwriters are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s), may subscribe for or purchase GDRs and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company may withdraw the Offering at any time, and the Company, the Selling Shareholders and the Underwriters reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

The distribution of this prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Subscription and Sale*” elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholders or the Underwriters is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The Regulation S GDRs and the Rule 144A GDRs will be delivered by the Depositary, pursuant to the deposit agreement (the “**Deposit Agreement**”), dated on or about 15 April 2011, between the Company and the Depositary. The Ordinary Shares represented by the GDRs will be registered in the name of the Depositary or its nominee (or the Depositary’s custodian or its nominee).

STABILISATION

In connection with the issue of the GDRs, the Stabilising Manager (or persons acting on behalf of any Stabilising Manager) may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect other stabilising transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail for a limited period. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Such stabilising, if commenced, may be discontinued at any time without prior notice, and may only be undertaken during the Stabilisation Period.

In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Any stabilisation action must be undertaken in accordance with applicable laws and regulations.

NOTICE TO CERTAIN INVESTORS

NOTICE TO UK AND OTHER EEA INVESTORS

This prospectus and the Offering are only addressed to and directed at persons in member states of the European Economic Area (the “**EEA**”), who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive. In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of the GDRs other than the offers contemplated in this prospectus in the United Kingdom following approval by the FSA will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for us, the Selling Shareholders or any of the Underwriters to produce a prospectus for such offer. None of the Company, the Selling Shareholders or the Underwriters has authorised or authorises the making of any offer of the GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of the GDRs contemplated in this prospectus.

For the purposes of this provision, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in each relevant

member state of the EEA), and includes any relevant implementing measure in each relevant member state of the EEA and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

This prospectus should not be considered as a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the Federal Service for Financial Markets and the GDRs are not intended for “placement” or “circulation” in the Russian Federation, unless otherwise permitted under Russian law. Any information on the GDRs in this prospectus is intended for, and addressed only to, “qualified investors” (as defined under Russian law) or persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

NOTICE TO UNITED STATES INVESTORS

Because of the following restrictions, purchasers in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the GDRs or the Ordinary Shares.

Neither the GDRs nor the Ordinary Shares have been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States except to pursuant to an exemption provided by Rule 144A from, or in a transaction not subject to, the registration requirements of the Securities Act or outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the GDRs may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE GDRs OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE GDRs OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“**RSA 421-B**”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

FINANCIAL STATEMENTS

This prospectus includes audited financial statements of the Group as of and for the years ended 31 December 2010 and 2009 (the “**2010/2009 Consolidated Financial Statements**”) and as of and for the years ended 31 December 2009 and 2008 (the “**2009/2008 Consolidated Financial Statements**” and, together with the 2010/2009 Consolidated Financial Statements, the “**Consolidated Financial Statements**”). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board, in effect at the time of their respective preparation. The 2010/2009 Consolidated Financial Statements and the 2009/2008 Consolidated Financial Statements do not reflect the share split, which happened subsequently (with effect from 20 March 2011). See “*Description of Share Capital and Certain Requirements of Guernsey Law — History of Share Capital — Share Split*”. The Consolidated Financial Statements have been audited by KPMG, independent auditors. See “*Independent Auditors*”.

NON-IFRS INFORMATION

We have included certain measures in this prospectus that are not measures defined by IFRS. These include EBITDA, EBITDA margin, net debt and net debt to EBITDA ratio. We have included these measures for the reasons described below; however, these measures should not be used instead of, or considered as alternatives to, our historical financial results based on IFRS.

We define EBITDA as comprehensive income for the year before interest and related income/(expenses), income tax expense, depreciation and amortisation. We define EBITDA margin as EBITDA divided by revenue. We believe that the presentation of EBITDA and EBITDA margin enhances an investor’s understanding of our financial performance. Our management uses EBITDA and EBITDA margin to assess our operating performance because it believes that EBITDA and EBITDA margin are important supplemental measures of our operating performance and because EBITDA is a measure incorporated into certain of our financial ratios in our loan instruments. In addition, our management believes that EBITDA and EBITDA margin are frequently used by securities analysts, investors and other interested parties in the evaluation of companies that operate in our industry. EBITDA and EBITDA margin are not presentations made in accordance with IFRS and our use of the terms EBITDA and EBITDA margin may vary from others in our industry due to differences in accounting policies or differences in the calculation methodology of EBITDA and EBITDA margin by others in our industry. For example, other market participants in our industry prepare their financial statements in accordance with Russian accounting policies instead of IFRS. EBITDA and EBITDA margin have limitations as analytical tools, and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. For example, EBITDA does not reflect the effect of financial income/ (expenses), income tax expense, depreciation and amortisation. EBITDA and EBITDA margin should not be considered as alternatives to net profit or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities or as measures of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Net debt is calculated as the sum of short-term and long-term loans less cash and cash equivalents and short-term investments in the form of short-term cash deposits. Net debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Our calculation of net debt may be different from the calculation used by other companies and therefore comparability may be limited. Although net debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company’s financial structure. We believe that net debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of net debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that we would, or could, use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements.

Net debt to EBITDA is a ratio calculated by dividing net debt by EBITDA (each as defined above). We use this measure as the principal statistic for evaluating the impact of the total size of our net borrowings on our operations.

SEGMENT REVENUE PERCENTAGES

Throughout this prospectus, we present information on our segments and business units as a percentage of revenues to show the percentage that each segment’s or business’s revenues contribute to our total revenues. We calculate this percentage by using the relevant revenue before inter-segment eliminations and without taking into account unallocated expenses or income.

CURRENCIES

Our functional currency is the rouble, as it reflects the economic substance of our operations. Our presentation currency is also the rouble. Solely for the convenience of the reader, certain amounts included in this prospectus have been translated from roubles into U.S. dollars, as set forth under “*Currencies and Exchange Rates*”. Investors in the GDRs should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all.

ROUNDING

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

CERTAIN DEFINITIONS AND CONVENTIONS

In this prospectus, we use certain defined terms, including the following:

- “**City of Moscow**” is a non-legal term broadly used in the Russian Federation which means Moscow state authorities, including, in particular, the Moscow Government;
- “**City of St. Petersburg**” is a non-legal term broadly used in the Russian Federation which means St. Petersburg state authorities, including, in particular, the St. Petersburg Government;
- “**Company**” refers to Etalon Group Limited;
- “**economic downturn**” is to the global economic and financial crisis that began in the second half of 2008, and, where the context admits, the resulting downturn in the Russian residential real estate market;
- “**Estimated Market Rental Value**” is to the current income or income estimated by the valuer: (i) ignoring special receipts or deductions arising from the property; (ii) excluding VAT and before taxation (including tax on profit and any allowances for interest on capital or loans); and (iii) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a good condition to command its rent;
- “**GBA**” is to gross buildable area;
- “**Government**” is to the Russian federal government;
- “**Group**”, “**we**”, “**our**”, “**us**” and similar expressions, unless the context otherwise requires, refer collectively to the Company and its consolidated subsidiaries;
- “**ha**” is to hectares;
- “**KAD ring road**” are to a federal automobile ring road encompassing St. Petersburg city;
- “**Moscow Government**” is to the superior collegial executive state body headed by the Mayor of Moscow, which is entitled, in particular, to allocate land for construction on the basis of investment contracts entered into between the Moscow Government and the relevant developer;
- “**NSA**” is to net saleable/leasable area;
- “**sq. km.**” are to square kilometre(s);
- “**sq. m.**” are to square metre(s); and
- “**St. Petersburg Government**” is to the superior collegial executive state body headed by the Governor of St. Petersburg, which is entitled, in particular, to allocate land for construction on the basis of investment contracts entered into between the St. Petersburg Government and the relevant developer.

CERTAIN JURISDICTIONS

In this prospectus, references to, unless otherwise specified:

- “**CIS**” are to the Commonwealth of Independent States and its member states as of the date of this prospectus: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- “**Khanty-Mansijsk Autonomous District**” are to an administrative-territorial unit of the Russian Federation, located to the South of the Yamalo-Nenets Autonomous District;

- “**Magadan region**” are to an administrative-territorial unit of the Russian Federation, located in the Eastern part of the country;
- “**Moscow Metropolitan Area**” and “**MMA**” are to Moscow and the Moscow region;
- “**North-West region**” are to the economic region of Russia, comprising the city of St. Petersburg, the Leningrad region, the Novgorod region and the Pskov region;
- “**Russia**” are to the Russian Federation;
- “**Sakhalin region**” are to an administrative-territorial unit of the Russian Federation, located on the Eastern coastline and comprising the Sakhalin Island and the Kuril Islands;
- “**St. Petersburg Metropolitan Area**” and “**SPMA**” are to St. Petersburg city (including its administrative territories outside KAD ring road);
- “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland;
- “**U.S.**” and “**United States**” are to the United States of America; and
- “**Yamalo-Nenets Autonomous District**” are to an administrative-territorial unit of the Russian Federation, located in the North.

LEGAL ENTITIES

In this prospectus, all references to:

- “**Aktiv**” are to CJSC Aktiv;
- “**Alfabank**” are to OJSC ALFA-BANK;
- “**Bank Zenit**” are to OJSC Bank Zenit;
- “**Baring Vostok**” are to Baring Vostok Capital Partners Limited, which acts as the investment adviser to the general partner of the Baring Vostok Funds;
- “**Baring Vostok Funds**” are to the four limited partnerships: Baring Vostok Private Equity Fund IV, L.P., Baring Vostok Fund IV Co-Investment, L.P.1, Baring Vostok Fund IV Co-Investment, L.P.2 and Baring Vostok Fund IV Supplemental Fund, L.P.;
- “**Daikar**” are to LLC Daikar;
- “**Etalon-Invest**” are to OJSC Etalon-Invest;
- “**EtalonProekt**” are to CJSC EtalonProekt;
- “**EtalonPromstroy**” are to CJSC EtalonPromstroy;
- “**FAS**” are to the Federal Antimonopoly Service;
- “**GLOBEX**” are to CJSC GLOBEXBANK;
- “**LenSpetsSMU-Rekonstruktsiya**” are to CJSC LenSpetsSMU-Rekonstruktsiya;
- “**LSS-Stroy**” are to LLC LSS-Stroy;
- “**Management Company Etalon**” are to CJSC Management Company Etalon or CJSC “UK Etalon”;
- “**MFTC**” are to CJSC MFTC or CJSC “SPb MFTC”;
- “**Novator**” are to CJSC Novator;
- “**PetroNefteProduct**” are to CJSC PetroNefteProduct;
- “**Rassvet**” are to LLC Rassvet;
- “**Rosbank**” are to OJSC CB ROSBANK;
- “**Sberbank**” are to OJSC Sberbank of Russia;
- “**SMU Electronstroy**” are to OJSC SMU Electronstroy;
- “**SPM Zhilstroy**” are to LLC SPM Zhilstroy;

- “SSMO LenSpetsSMU” are to CJSC SSMO LenSpetsSMU;
- “TSUN” are to CJSC TSUN or CJSC “TSUN LenSpetsSMU”;
- “UM Etalon” are to LLC UM Etalon, former LLC Severnaya Vysota I K;
- “Zatonskoye” are to CJSC Zatonskoye; and
- “ZSM Etalon” are to CJSC ZSM Etalon.

MARKET DATA

In certain instances in this prospectus, we have included our own estimates, assessments, adjustments and judgements in preparing market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by us approximately reflects the industry and the markets in which we operate, there is no assurance that our own estimates, assessments, adjustments and judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

Otherwise, market data used in this prospectus, including statistics in respect of our competitors’ sales volumes and market share, has been extracted from official and industry sources and other sources we believe to be reliable including, without limitation, in the sections headed “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Industry*” and “*Business*”. Such information, data and statistics may be approximations or estimates or use rounded numbers. We have relied on the accuracy of this information without independent verification.

In particular, we have cited: the Central Bank of the Russian Federation (the “**CBR**”), the Federal State Statistics Service (“**Rosstat**”), the Economist Intelligence Unit (“**EUI**”), Datastream, the United Nations Economic Commission of Europe (“**UNECE**”), Indikatory rynka nedvizhimosti (the “**IRN**”), Miel Real Estate Company (“**MIEL**”), Real Estate Agency MIAN (“**MIAN**”), Peterburgskaya Nedvizhimost (“**SPb Realty**”), the Russian Ministry of Industry and Trade, British Petroleum, St. Petersburg Mortgage Agency, the Construction Committee of St. Petersburg, the St. Petersburg City Administration of Inventory and Real Estate Approval, Intermark Savills, the Russian Federal Service for State Registration, Cadastre and Cartography (“**Rosreestr**”), Real Estate Agency Azbuka Zhilya (“**Azbuka Zhilya**”), Sberbank Macroeconomic Investigation Center, the Federal Programme “Zhilische”, Real Estate Agency BSN (“**BSN**”), Online News Bulletin BN (“**BN**”) and Synovate Comcon LLC Informational Report based on the materials of the surveys “Russian Target Index” — 2010, Regarding “Living Conditions” (“**Synovate Comcon**”), Metrinfo survey of Moscow real estate, 2010 (“**Metrinfo**”) as sources in this prospectus under the caption “*Industry*”; Rosstat, the CBR, the European Mortgage Federation and the Russian Ministry of Industry and Trade under the caption “*Business*”, and Rosstat under the caption “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, which, in each case, are independent sources. We confirm that this information has been accurately reproduced and that as far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition, some of the information contained in this document has been derived from the official data of Russian government agencies. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

We confirm that the third party information included herein has been accurately reproduced and that as far as we are aware, and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. We note that neither these independent sources nor the Underwriters accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution.

REAL ESTATE MARKET VALUES

All real estate market values presented herein are from the report of Jones Lang LaSalle LLC (“**JLL**”), an independent appraiser, dated 31 December 2010 (hereinafter referred to as “**Market Value**”). A summary of this report is included as Annex A to this prospectus and referred to herein as the “**Valuation Report**”. The Market Value of a development as assessed by JLL is the estimated amount for which a property should exchange on the

date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. JLL appraised 28 projects at various stages of development. Our portfolio of properties and our development projects are together referred to herein as "properties". The properties were valued as of 31 December 2010. Each property has been valued on the basis of Market Value in accordance with the appropriate sections of both the current Practice Statements and United Kingdom Practice Statements contained within the RICS Valuation Standards, 6th Edition (the "**Red Book**"). This is an internationally accepted basis of valuation. The valuations and a complete discussion of the valuation methodology and other assumptions, methodologies and qualifications are contained in the Valuation Report and elsewhere in this prospectus. See the Valuation Report and "*Business — Residential Development-Valuation of our Properties*".

CURRENCIES AND EXCHANGE RATES

All references in this prospectus to:

- “**RUB**” and “**Rouble**” are to the lawful currency of Russia;
- “**\$**”, “**USD**”, “**Dollars**” and “**U.S. dollars**” are to the lawful currency of the United States of America;
- “**€**”, “**EUR**” and “**euro**” are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the treaty establishing the European Community (“**EC**”), as amended by the Treaty on European Union; and
- “**£**”, “**GBP**” and “**pounds sterling**” are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

	RUB per USD 1.00			
	High	Low	Period average ⁽¹⁾	Period end
Month				
April 2011(through 15 April 2011)	28.52	27.98	28.23	28.19
March 2011	28.90	28.16	28.43	28.43
February 2011	29.80	28.94	29.29	28.94
January 2011	30.63	29.67	30.09	29.67
Year				
2010	31.78	28.93	30.37	30.48
2009	36.43	28.67	31.72	30.24
2008	29.38	23.13	24.86	29.38
2007	26.58	24.26	25.58	24.55
2006	28.78	26.18	27.19	26.33

Note:

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

Solely for the convenience of the reader, and except as otherwise specified, this prospectus contains translations of some Rouble amounts into U.S. dollars given as of 31 December 2010 at the conversion rate of RUB 30.48 to USD 1.00, which was the official exchange rate quoted by the CBR on 31 December 2010. No representation is made that the Rouble amounts referred to in this prospectus could have been or could be converted into U.S. dollars at the above exchange rate or at any other rate. For a discussion of the effects of fluctuating exchange rates on the our results of operations, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures about Market Risk — Foreign Exchange Risk*”.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

Our presence and that of the Selling Shareholders outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of Guernsey and our Selling Shareholders are incorporated outside the United States and the United Kingdom. Most of our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation (see “*Directors, Management and Corporate Governance*”). All of our assets and almost all of the assets of our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us, the Selling Shareholders or our respective directors and executive officers or to enforce U.S. or U.K. court judgements obtained against us, the Selling Shareholders or our respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws. See “*Risk factors — Risks relating to the IPO and GDRs — Investors may have limited recourse against the Selling Shareholders, the Company or the Company’s directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of the Company’s current directors and executive officers reside outside the United States and the United Kingdom*”.

Judgements rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgements in civil cases exists between the Russian Federation and the country in which the judgement is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgements.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. However, we are aware of at least two instances in which Russian courts have recognised and enforced a foreign court judgement (an English court judgement in one instance and a Dutch court judgement in the other instance), on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation, and both The Netherlands and the Russian Federation, respectively, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgement in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce a foreign court judgement on these grounds. In addition, Russian courts have limited experience in the enforcement of foreign court judgements. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs. Under the terms of the Deposit Agreement (as defined below), owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreement or any transaction contemplated therein, the Ordinary Shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) in proceedings in London, England, as more fully described in the Deposit Agreement. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, (the “**New York Convention**”). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts’ inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgement obtained in a foreign court on the merits may also significantly delay the enforcement of such judgement. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are forward-looking statements, which include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe”,

“expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this prospectus including, without limitation, “*Risk Factors*,” “*Business*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of our businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for our properties;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives;
- our competitive strengths and weaknesses; and
- the strengths of our competitors.

The forward-looking statements in this prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond our control, and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in Russia, including significant declines in Russia’s gross domestic product (“**GDP**”);
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- changes in the policies or leadership of the city governments of St. Petersburg or Moscow;
- increased interest rates and operating costs, including the supply of, and the price for, building materials in Russia;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through various sources, but primarily through cash from operations (mainly, cash from pre-sales of residential properties) and borrowings;
- our ability to implement successfully any of our business strategies;
- decreased sales prices for our properties;
- our ability to obtain necessary regulatory approvals;
- changes in customer preferences resulting in decrease of demand for our properties;
- our ability to identify suitable development sites to acquire and to successfully complete acquisitions and developments;
- changes in the regulation of real estate and the environment;
- competition in the marketplace;
- changes in real property or other tax rates;

- changes in accounting standards or practices;
- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the impact of general business and global economic conditions; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, neither we nor any of our agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this prospectus.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs or the Ordinary Shares represented thereby are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or to any prospective purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

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SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our financial statements and the accompanying notes beginning on page F-2 of this prospectus. Any decision to invest in the GDRs should be based on consideration of this prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors," and not solely on this summarised information.

OVERVIEW

We are one of Russia's largest and oldest residential real estate developers, with a leading position in the St. Petersburg Metropolitan Area and a growing presence in the Moscow Metropolitan Area. Our strong portfolio is focused on large-scale residential complexes, targeting the lower middle class and upper economy class price segments. With over 23 years of experience in real estate development and construction, we believe we have one of the longest track records in the Russian industry. Since our inception in 1987, we have successfully completed a total gross buildable area of approximately 2.7 million square metres with approximately 0.4 million square metres, 0.3 million square metres and 0.2 million square metres delivered in 2008, 2009 and 2010, respectively.

Historically, we have focused our residential property development in the St. Petersburg Metropolitan Area, where we have achieved a leading position in the private sector (excluding individual construction), with an 11% average annual market share of total residential completions between 2000 and 2010. Leveraging on our extensive experience and capabilities, in 2008, we expanded our property development business into the Moscow Metropolitan Area by commencing development projects which, as of 31 December 2010, had over 1.1 million square metres of unsold net sellable area.

As of 31 December 2010, our portfolio consisted of 28 projects in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, accounting for approximately 64.4% and 35.6% of the project portfolio's total unsold net sellable area, respectively. With a view to secure predictable cash flow generation, we believe our project portfolio provides a well-balanced schedule of completions over the next six years, with approximately 52.5% of the portfolio's total unsold net sellable area comprising residential projects in the design stage, 45.8% comprising residential projects under construction, 1.1% comprising completed residential projects with unsold units and 0.6% comprising standing commercial property as of 31 December 2010. Subject to the assumptions set out in the Valuation Report, our beneficial interest in the project portfolio amounted to USD 1.4 billion (RUB 42.7 billion) as of 31 December 2010.

We specialise in developing large-scale multi-phase residential complexes, targeting the lower middle class and upper economy class price segments. To meet the demands of our customers, our business model is focused on providing high quality living at affordable prices. We construct our residential complexes using poured concrete technology (as opposed to prefabricated panel construction), which is commonly used in more developed markets for its high quality, scalability, design flexibility and capital expenditure efficiency, and which enables us to offer our customers exceptional value for money. The defining feature of our residential developments is construction of entire estates and, in some cases, micro-districts, integrated with social infrastructure, including kindergartens, schools and hospitals. Located in the suburban or newly urbanised areas outside city centres, our residential developments combine a relatively more spacious living environment compared to city centres with convenient access to transportation networks. Our product proposition is further enhanced through provision of on-site, consumer-oriented commercial properties, recreational areas and comprehensive property maintenance services, all of which contribute to the quality lifestyle that our customers value. We believe that our extensive track record of consistent delivery of quality products at attractive prices in a timely manner has helped us to establish a solid reputation and strong brand recognition in our target markets, which, in turn, enhance our access to new development projects and help us to retain our market position in the future.

Access to our potential customer base is substantially expanded through our nationwide marketing and sales network. Focused on the regions in which people with the highest disposable income reside in Russia (including regions rich in natural resources), our network targets prospective buyers who are seeking to relocate or purchase

secondary housing in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. Our regional pre-sales and sales contracts accounted for approximately 27.9% of our total contracts concluded in 2010.

As a vertically integrated developer with approximately 3,674 employees as of 31 December 2010, we have execution capabilities and technical expertise to manage the most important stages of the development process, starting from assessing development opportunities to master planning and permit management, construction, nationwide marketing and sales and on-going maintenance of the completed developments. We also operate selective businesses in the areas critical to our property development business, including production of construction materials, such as bricks, ready-mix concrete, reinforced concrete structures and aerated concrete, and tower crane operation, offering the latest generation vehicles. We believe our integrated business model allows us to control quality over the development process, realise synergistic cost savings, shorten production cycle and lower risk of dependence on suppliers in key supply and service areas.

We are also a leader in industrial construction in the North-West region of Russia based on a solid track record of successfully executing large and complex industrial construction projects since 1987. We undertake industrial construction projects in the capacity of either a general contractor or a subcontractor for both domestic and international customers, such as Toyota, Ford, General Motors, Nissan and other household names. We plan to maintain our industrial construction operations in order to build upon our expertise, utilise our capacity and support our brand equity.

For the years ended 31 December 2008, 2009 and 2010, our consolidated revenue was RUB 14.3 billion, RUB 20.2 billion and RUB 20.3 billion, respectively, and EBITDA was RUB 3.2 billion, RUB 7.6 billion and RUB 6.9 billion, respectively. Our net debt/EBITDA ratio was 1.4x, 0.3x and 0.6x as of 31 December 2008, 2009 and 2010, respectively.

COMPETITIVE STRENGTHS

We believe that we operate in an attractive industry with strong potential for future growth of the Russian real estate market in the medium- to long-term driven by three fundamentals: (i) living space undersupply, (ii) obsolete existing housing and (iii) mortgage under-penetration. As one of the leading residential real estate developers in Russia, we consider ourselves well-positioned to benefit from these favourable market dynamics in the Russian real estate market because of the following competitive strengths:

- Extensive track record of consistent delivery of quality products
- Nationwide sales and marketing network
- Unique price, product and market combination
- Focus on key markets — St. Petersburg and Moscow Metropolitan Areas
- Efficient use of capital with a portfolio focused on cash generation
- Strategic vertical integration: control over costs, quality and timing
- Strong financial performance and robust balance sheet
- Experienced and dedicated management team
- Strong corporate governance and cornerstone international investor

STRATEGY

We aim to maximise value for our shareholders by pursuing the following strategies:

- Targeting key markets
- Hone our product and enhance our core competencies
- Efficient land bank approach focused on capital efficiency
- Continue to cultivate our market reputation
- Prudent and diversified financing

RISK FACTORS

An investment in the GDRs involves a high degree of risk, including those relating to or arising from the Group's business and industry, political, social, economic, legislative and legal risks associated with Russia and risks arising

from the nature of the GDRs and the markets upon which they are expected to be traded, including business risks associated with the following matters:

- cyclical nature of the Russian real estate market;
- numerous development, construction and investment risks inherent to real estate development;
- potential delays in commencement or completion of construction and financial loss with respect to real estate development projects, a number of which are currently in the early stages of development;
- our ability to obtain adequate capital to fund our working capital requirements, including the effect of the Cost Sharing Law on our ability to finance construction projects from pre-sales of flats;
- our ability to locate and acquire land suitable for development at attractive prices and upon favourable terms and conditions;
- potential delays in acquiring legal title and difficulty or impossibility of establishing title that is not susceptible to challenge or delays;
- potential delays or refusals in obtaining all necessary governmental permits and authorizations and our ability to comply with the terms and conditions of such permits and authorizations;
- potential challenges to our ownership interests or lease rights in land and our ability to enter into land lease agreements or renew land lease rights as they expire or the rescission of investment contracts;
- broad discretion of various governmental authorities over the issuance of development rights and potential deterioration of our relationships with such authorities;
- our ability to execute formal agreements and/or obtain rights necessary to complete the development of several projects included in the Valuation Report, including execution of final sale and purchase agreements, investment contracts and lease agreements, and registration of such agreements (as applicable) with appropriate governmental authorities.
- real estate appraisals with respect to the properties and projects included in this prospectus, which may not reflect their actual market values because determining such values is an inherently subjective process;
- our ability to achieve our production plan or sales targets;
- operating in highly competitive industry;
- geographic concentration of our project portfolio in the St. Petersburg Metropolitan Area and recent expansion into the Moscow Metropolitan Area;
- availability and cost of components, materials and external subcontractors, and availability of sufficient local infrastructure;
- our lack of a Group-wide fully integrated automated information system for preparation of the financial statements;
- inapplicability of corporate governance regimes in the UK and Guernsey and different corporate governance standards in the Russian Federation compared with Western Europe and the United States; and
- the ability of the Zarenkov family to exert significant influence over us.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is subject. Investors should carefully consider all of the information in this prospectus, including the information included under “*Risk Factors*,” prior to making an investment in the Offering.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The summary consolidated audited financial information set forth below shows our historical consolidated audited financial information and other operating information as of and for the years ended 31 December 2008, 2009 and 2010. The summary consolidated audited financial information has been extracted without material adjustment from our Consolidated Financial Statements and should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

See also “*Presentation of Financial and Other Information*” for important information about the financial information presented herein.

Consolidated statement of comprehensive income data

	For the year ended 31 December		
	2008	2009	2010
	mln RUB	mln RUB	mln RUB
Revenue	14,269	20,193	20,316
Cost of sales	(9,161)	(11,023)	(11,078)
Gross profit	5,108	9,170	9,238
General and administrative expenses	(1,541)	(1,440)	(2,047)
Selling expenses	(451)	(131)	(589)
Other expenses, net	(149)	(196)	(177)
Results from operating activities	2,967	7,403	6,425
Finance income	174	225	284
Finance costs	(1,257)	(1,049)	(667)
Net finance costs	(1,083)	(824)	(383)
Share of profit of equity accounted investees (net of income tax)	4	2	—
Profit before income tax	1,888	6,581	6,042
Income tax expense	(715)	(1,434)	(1,355)
Profit for the year	1,173	5,147	4,687
Total comprehensive income for the year	1,173	5,147	4,687
Attributable to owners of the Company	776	4,936	4,628
Attributable to non-controlling interest	397	211	59

Consolidated statement of financial position data

	As of 31 December		
	2008	2009	2010
	mln RUB	mln RUB	mln RUB
Non-current assets	3,016	3,620	2,899
Current assets	34,984	34,061	33,650
Total assets	38,000	37,681	36,549
Total equity	2,942	8,051	12,568
Non-current liabilities	2,276	3,877	7,084
Current liabilities	32,782	25,753	16,897
Total equity and liabilities	38,000	37,681	36,549

Consolidated statement of cash flows data

	For the year ended 31 December		
	2008	2009	2010
	mln RUB	mln RUB	mln RUB
Net cash provided by/(used in) operating activities	659	2,180	(1,184)
Net cash used in investing activities	(378)	(155)	(555)
Net cash (used in)/from financing activities	1,143	(1,021)	2,039
Net increase in cash and cash equivalents	1,424	1,004	300

	As of, and for the year ended 31 December		
	2008	2009	2010
Other financial data			
EBITDA (mln RUB) ⁽¹⁾	3,181	7,605	6,909
EBITDA margin (%) ⁽²⁾	22	38	34
Net debt (mln RUB) ⁽³⁾	4,358	2,428	4,213
Net debt to EBITDA ratio ⁽⁴⁾	1.4	0.3	0.6

(1) EBITDA for each period is defined as comprehensive income for the year before interest and related income/(expenses), income tax expense, depreciation and amortisation. See "Selected Consolidated Financial Information — Other Financial Data."

(2) EBITDA margin represents EBITDA divided by revenue.

- (3) Net debt is calculated as the sum of short-term and long-term loans less cash and cash equivalents and short-term investments in the form of short-term cash deposits.
- (4) Net debt to EBITDA is a ratio calculated by dividing net debt by EBITDA.

SUMMARY OF THE OFFERING

The Company is offering 71,428,571 newly issued Ordinary Shares and the Selling Shareholders are offering 10,714,286 existing Ordinary Shares, in each case in the form of GDRs, with one GDR representing one Ordinary Share. In addition, Strata Investments Limited has granted to the Stabilising Manager, on behalf of the Underwriters, the Over-allotment Option to acquire up to 12,321,428 additional Ordinary Shares in the form of GDRs for the purposes of covering over-allotments, if any, made in connection with the Offering and to cover any short positions resulting from stabilisation transactions. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to “institutional investors” in offshore transactions in reliance on Regulation S.

USE OF PROCEEDS

The gross proceeds to the Company of the offering of GDRs representing newly issued Ordinary Shares are expected to be USD 500 million. The net proceeds of the Offering by the Company are expected to be approximately USD 483 million after deducting from the gross proceeds the aggregate underwriting commissions and fees relating to the primary portion of the Offering and the Underwriters’ total expenses, as described more fully in “*Subscription and Sale*”, of USD 12.8 million, and the estimated other aggregate expenses of the Offering, which are expected to total approximately USD 4.2 million. All expenses of the Offering will be paid by the Company. In addition, at its sole discretion, the Company may pay a discretionary fee of up to USD 5.0 million.

The Company will not receive any proceeds from the sale of GDRs by the Selling Shareholders.

The Company intends to use approximately 70% of its share of the net proceeds of the Offering to finance the acquisition of land plots. The Company intends to use the remaining 30% of its share of the net proceeds for general corporate purposes, including the construction costs of new and existing projects.

RISK FACTORS

An investment in our GDRs involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this prospectus before making a decision to invest in the GDRs. Any of the following risks, individually or together, could adversely affect our business, financial condition and results of operations, in which case the trading price of our GDRs could decline and you could lose all or part of your investment.

We have described the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties of which we are currently not aware or which we currently deem immaterial may also have an adverse effect on our business, financial condition and results of operations.

Prospective investors should be aware that the value of the GDRs and any income from them may go down as well as up and that investors may not be able to realise their initial investment.

RISKS RELATING TO OUR BUSINESS

The Russian real estate market is cyclical in nature and, in the event of a reoccurrence of the recent economic downturn and the related deterioration of the Russian economy, our business, financial condition, results of operations and the value of our properties could be materially adversely affected.

The Russian real estate market is cyclical in nature and is generally dependent on the state of the Russian economy, the growth of which also tends to be cyclical. Demand for real estate depends primarily on income levels and the general economic and financial situation in the Russian Federation. Our business, financial condition, results of operations and the value of the different types of properties related to our business activities may be materially adversely affected by the cyclical nature of the real estate market and the Russian economy in general.

The recent global economic downturn has had a pronounced negative effect on the Russian economy, as evidenced by a decrease in GDP, a decline in foreign investment, severe liquidity constraints and a significant depreciation of the Rouble against the U.S. dollar and Euro. The severe economic downturn led to a reduction in the disposable income of the general population, a rise in the unemployment rate and, consequently, a reduction in demand for, and corresponding substantial declines in the values of, commercial and residential real estate. In addition, the economic downturn also affected the availability of mortgage financing for prospective purchasers of real estate, which led to a further decline in the general demand for real estate products and an associated further erosion of their selling prices. As a consequence, the economic downturn has had a material adverse effect on the real estate development and construction sectors of the Russian economy. For a more detailed discussion on the developments in the industry, see “*Industry — Russian Residential Real Estate Market Overview*”. These factors had a pronounced negative effect on various aspects of our business, financial condition and results of our operations since 2009, largely affecting our earnings for the year ended 31 December 2010. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Macroeconomic Factors*” and “*— Revenue and cost recognition*” for further details.

Although the real estate market in Russia has shown signs of recovery since the second half of 2009, the extent and sustainability of the recovery remains uncertain. In the event of a reoccurrence or continuation of the recent economic downturn and the resulting deterioration of the Russian economy, the demand for properties, and particularly residential properties, could be directly and materially adversely affected. A decrease in demand for properties could result in a decline in construction activity and a related decrease in demand for construction materials. Consequently, in the event of a reoccurrence of the recent economic downturn and the related deterioration of the Russian economy, our business, financial condition, results of operations and the value of our properties could be materially adversely affected.

Our revenues depend on a number of factors, any or all of which could materially adversely affect our business, financial condition, results of operations and the value of our properties.

We derive a substantial portion of our revenues from the sale of real estate properties in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. Our returns on these sales depend on overall levels of supply and demand in the marketplace, the selling prices that we are able to achieve and expenses incurred in the development and management of our properties. These factors and, consequently, our returns may fluctuate in response to a number of considerations, including the following:

- regional and local economic conditions;
- the cyclical nature of the real estate market;

- the quality and proximity of competition presented by other residential real estate developers, which may diminish our opportunities for acquiring desired properties or sites on favourable terms or at all, as well as diminish our sales;
- changes in customer preferences and perceptions as to the attractiveness, quality, comfort, safety and location of our projects and properties;
- the availability and cost of rental housing to our customers;
- the availability of mortgage and other financing for potential purchasers of our properties;
- changes in interest rates and inflation;
- the availability and cost of land and real property;
- the availability of new development projects offered by local and regional governments;
- the availability and costs of obtaining financing resources for our construction projects;
- failure to generate sufficient level of pre-sales to finance construction;
- unanticipated development and other costs;
- changes in laws, regulations or government policies (including those relating to health and safety and environmental compliance), which increase the costs of complying with such laws, regulations or policies;
- increases in real estate taxes and other statutory charges;
- the supply of, and the price for, construction materials, energy and other utilities in Russia;
- the bankruptcy or insolvency of external subcontractors and other counterparties; and
- the long time period between planning and completion of our projects.

Any or all of these factors could materially adversely affect our business, financial condition and results of operations.

We are subject to numerous development, construction and investment risks inherent to real estate development.

Our principal activity is the development of properties and construction of buildings for sale. The development of properties involves general investment risks, including the risks that the assumptions, estimates and valuations related to the land we acquire and projects we intend to develop may prove inaccurate (including the assumptions and estimates relating to the possible uses of properties or the viability of certain projects). Construction and development activities are time consuming, require significant financial investments, and involve establishing and maintaining important business relationships with various parties, including suppliers, subcontractors, utility service providers and potential purchasers.

Moreover, although, as part of our normal course of business, we research, conduct valuations and market studies and verify legal and technical requirements of the properties we intend to acquire for the development projects, we can give no assurance that properties we have acquired will not be subject to material risks that were not apparent at the time of acquisition, including, without limitation, environmental risks and legal restrictions. Further, we cannot give any assurance that the assumptions on which the valuations are based were accurate at the time they were made or will continue to be accurate. These risks could cause the value of our properties to decline, lead to claims for damages, require us to incur significant additional costs or, in some circumstances, require us to delay or cease development on such properties, any of which could have a material adverse effect on our business, financial condition and results of operations. For example, in an attempt to mitigate the effects of the economic downturn on our operations, we prudentially and strategically postponed completion schedules of some of our properties towards the end of 2008 until the summer of 2009, which will delay the availability for sale of the corresponding net sellable area. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Macroeconomic Factors*” for further details.

Our projects may be subject to delay, non-completion and financial loss.

Our projects are at various stages of development. According to the Valuation Report, as of 31 December 2010, approximately 52.5% of the portfolio’s total unsold net sellable area comprised residential projects in the design stage, 45.8% comprised residential projects under construction, 1.1% comprised completed residential projects with unsold units and 0.6% comprised standing commercial property. Property developments typically require substantial capital outlays during construction periods, and it may take months or years before positive cash flows, if

any, can be generated by pre-sales of properties to be completed or sales of completed properties. Real estate development, construction and acquisition activities are subject to significant risks of delay, non-completion and financial loss due to, among other factors:

- changing market conditions, which may result in diminished demand for developed properties and lower than expected sale prices;
- impossibility due to legal regulation or our failure to generate sufficient level of pre-sales to finance construction;
- potential inability to obtain or renew land lease rights from governmental authorities;
- budget overruns and completion delays with respect to real estate development projects;
- potential inability to obtain financing on favourable terms or at all;
- potential delays or refusals in obtaining all necessary land use, building, occupancy and other required governmental permits and authorisations, including investment contracts with local and regional authorities;
- potential title or other defects in acquired land plots, including latent defects that may not reveal themselves until many years after we develop a property;
- potential liabilities relating to acquired land, properties or entities owning properties for which we may have limited or no recourse;
- compulsory sale of developed properties to the Russian federal government or a regional government triggered by government infrastructure development plans;
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Russia, as well as social obligations;
- restrictions and encumbrances in land leases, as well as provisions governing the assignment or disposal of land lease rights or other provisions affecting property value;
- inability to fulfil the terms of investment contracts;
- potential liabilities relating to warranties and guarantees given by us for the quality of construction work performed subsequent to the date on which the project was transferred to the customer, generally for a period after the transfer of up to five years for construction works;
- limited availability of energy and other utilities and adequate transportation infrastructure;
- changes in laws and governmental regulations and tax laws or the interpretation or application thereof;
- changes in town planning and zoning regulations or the interpretation or application thereof; and
- possible industrial accidents, deterioration of ground conditions (e.g., presence of underground water), and potential liability under environmental laws (e.g., for soil and site contamination, air contamination and contamination of adjacent areas and the use of hazardous substances, etc.) and other laws.

The occurrence of one or more of these factors could materially adversely affect our business, financial condition and results of operations.

We focus primarily on developing large-scale residential complexes rather than single buildings. The complexity and scale of these projects may increase the risk of failure to complete such projects within our projected timetables or projected budget compared to projects that are less complex.

In addition, if our construction processes are delayed or disrupted, our reputation may be negatively affected. We may face interruptions due to human error in the operation of machines, power outages, weather and natural disasters or other occurrences that have an impact on the productive availability of machines, material or manpower. Difficulties encountered in the construction process can reduce production yields or interrupt production and may make it difficult for us to complete projects on time or in a cost-effective, competitive manner. Any inability to complete our projects, deliver our products or perform our services on time or at a competitive cost could result in our incurring contractual penalties and could negatively affect our reputation in the market, which could deter customers from purchasing our products and services and in turn have a material adverse effect on our business, financial condition and results of operations.

Our ability to finance construction projects may be materially adversely affected by the Cost Sharing Law.

We finance a significant portion of our construction projects by receiving funds from pre-sales of flats prior to the completion of construction. As of 31 December 2008, 2009 and 2010, the advances from customers, which represented prepayments for flats and commercial premises made under sales contracts, were RUB 23,283 million, RUB 17,869 million and RUB 11,988 million, respectively. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.*”

Russian Federal Law No. 214-FZ “On Participation in Cost Sharing Construction of Apartment Buildings and Other Real Estate,” which came into effect in April 2005 (the “**Cost Sharing Law**”), prohibits developers from raising funds from private individuals prior to (i) obtaining a construction permit, (ii) publishing a project declaration (summary information on the developer and its project), and (iii) having registered its rights to the land plot intended for construction, unless one of the exceptions set out in the Cost Sharing Law applies. The Cost Sharing Law also offers statutory protection to individuals who purchase pre-sold properties directly from a developer. Where a purchaser pays for a property that is yet to be completed, the purchaser automatically becomes, by law, a pledgee of a part of the land plot and the construction in progress proportional to the purchaser’s investment. See “*Regulation of Real Estate in Russia — Residential Construction — Financing and Sale.*”

Many developers, including us, made use of certain financial arrangements not expressly provided for in the Cost Sharing Law, which allowed them to receive funds from potential purchasers of residences at various early stages of the construction process. However, Russian Federal Law No. 119-FZ “On Amending the Federal Law On State Registration of Real Property and Transactions Therewith and Certain Other Legal Acts of the Russian Federation,” which came into effect in June 2010, expressly restricted developers’ right to use any financial arrangements other than those expressly permitted by the Cost Sharing Law. We believe that such alternative financial arrangements that were entered into before the amendments to the Cost Sharing Law became effective were in compliance with Russian law then in effect; therefore, we believe that they remain legally binding and enforceable. However, the amended Cost Sharing Law prevents us from entering into such alternative financial arrangements with new customers. Moreover, we cannot give any assurance that our current and previous arrangements are free from possible challenge and that such arrangements will not be found to be in violation of the Cost Sharing Law. If the alternative financial arrangements are found to be in violation of the Cost Sharing Law, we may be subject to administrative fines and, upon the claim of the investors or owners of apartments who participated in such arrangements, we would be required to return funds (together with interest) to such investors or owners of apartments in exchange for their return of the relevant flats. This may have a material adverse effect on our business, financial condition, results of operations and prospects.

We have begun to implement a new alternative financial arrangement that is expressly permitted by the Cost Sharing Law, which allows us to receive funds from potential purchasers of residences prior to obtaining a construction permit. In particular, to assist private individuals who intend to invest in our development projects, we establish a housing construction cooperative (the “**Cooperative**”). Upon formation of the Cooperative, private investors become its members and contribute their funds to the Cooperative, which, in turn, invests received funds in construction on the basis of co-investment agreements. Investments made by the Cooperative are not subject to regulation by the Cost Sharing Law. Using the Cooperative as an investment vehicle is more complicated than the arrangements that we utilised before the amendments to the Cost Sharing Law came into effect. Such investment scheme is associated with additional legal risks and costs related to management of the Cooperative and has not yet been tested in court, which makes it less attractive to our customers. Moreover, banks generally do not extend pre-mortgage loans to investors purchasing housing in incomplete buildings through membership in the Cooperative.

In addition, every member has an unconditional right to exit the Cooperative at his or her own initiative at any time and receive a refund of the entire amount of his or her investment less a 10% penalty fee. The Cooperative may also exclude a member at any time for failure to perform his or her obligations with respect to the Cooperative, including, *inter alia*, the obligation to pay contributions in a timely manner. In such case, the excluded member has a right to receive the entire amount of his or her investment less a 10% penalty fee. Under the law, when a member is excluded from the Cooperative he or she is entitled to receive a refund of his or her investment not later than within two months from the date when the relevant decision was taken. There is no specific period in the law for the refund of the investment to a member who decided to exit the Cooperative on his or her own initiative, and this period should be provided in the charter of the Cooperative; however, due to an ambiguity in Russian law, a court may reduce this period by up to two months.

A duty to return the contribution made by a member of the Cooperative may result in an unanticipated increase of our working capital needs. Our failure to effectively implement and utilise this new financial arrangement may reduce our access to capital resources. If we cannot obtain adequate funds, it could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that the Government will not adopt more stringent laws and regulations in the future, or more stringent interpretation of existing laws and regulations with respect to the real property industry and pre-sales, in particular. If we fail to adapt our operations to new laws and regulations that may come into effect from time to time, or more stringent interpretation of existing laws and regulations with respect to the real property industry, such changes may disrupt our business or cause us to incur additional costs, our business, financial condition and results of operations may be materially and adversely affected.

Our business is capital intensive; if we are unable to obtain adequate capital, we may not be able to fund our working capital requirements and may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.

Real estate development is a capital-intensive business. We have significant ongoing liquidity and working capital requirements in order to fund and maintain our current level of operation.

We have historically financed our capital requirements from cash provided by a range of sources, but principally from operations, bank loans and certain unsecured bond issuances. Pre-sales of flats in a building constitute a primary source of funding for the construction of such building. Our sales and operational cash flows, to a large extent, depend on a number of economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Moreover, as a result of recent legislative changes, we are no longer able to receive funds as advances from potential purchasers of our housing prior to obtaining the construction permit, which requires that we seek other sources of funding for our working capital needs. See “— *Our ability to finance construction projects may be materially adversely affected by the Cost Sharing Law.*” We cannot assure you that we will have sufficient cash flow available for land acquisitions or property development or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments.

We have in the past needed, and may in the future need, to attract equity or debt financing in Russian and international capital markets to fund the working capital and capital expenditure requirements of our business, including the acquisition of land or properties for development. Debt financing in Russia, particularly long-term debt financing on commercially acceptable terms, has been and may continue to be generally difficult to obtain. We also may not be able to borrow on the international capital markets on acceptable terms or at all in the future.

Our ability to obtain equity financing in the amounts sufficient to meet our financial needs could be adversely affected by many factors, which may be beyond our control, including, but not limited to, global and domestic economic conditions, the health of the Russian securities market and regulatory developments. For example, the recent economic downturn has adversely affected international equity markets and prices of equity securities. Equity markets of developing economies, such as the Russian economy, are more volatile than equity markets of developed market economies. Key Russian equity market indexes, MICEX and RTS, decreased by 44.6% and 57.2% from 1,753.7 and 2,303.3 as of 30 June 2008 to 971.6 and 987 as of 30 June 2009, respectively. As of 31 December 2010, MICEX and RTS indices increased by 73.7% and 79.4% to 1,688.0 and 1,770.3, respectively. Such volatility may have a material adverse effect on our ability to obtain equity financing on acceptable terms or at all.

Issue of additional Ordinary Shares by us may require consent of our shareholders, including major shareholders, who may experience significant dilution as a result of an offering of additional Ordinary Shares to investors. We may not be able to procure the required consents of our shareholders and may not be able to obtain equity financing as a result. See also “— *We will remain under the control of the shareholders from the Zarenkov family, whose interests could conflict with those of the holders of the Ordinary Shares and GDRs.*”

Any of the foregoing factors may reduce our access to capital resources and compel us to utilise less efficient financing options for the construction of new housing before apartments are sold to customers, which may include block sales of apartments at an early stage of construction at a deep discount. If we cannot obtain adequate funds, it could have a material adverse effect on our business, financial condition and results of operations.

The success of our property development business strategy and profitability depends heavily upon our ability to locate and acquire land suitable for development at attractive prices and upon favourable terms and conditions.

Our historical growth and profitability have been attributable, in part, to our ability to locate and acquire land at attractive prices and on favourable terms and conditions. Unlike our competitors, we aim to maintain sufficient land bank for sustainable active development over the short to medium term with no land bank held for future development. In the past, we have been able to acquire sufficient land suitable for our developments. There can be no assurance, however, that we will continue to be able to identify and acquire sufficient sites in the future at attractive prices or on favourable terms and conditions. In addition, we also face the risk that competitors may anticipate certain potential investment opportunities and exploit them ahead of us. Any inability to identify and

acquire sufficient sites for our land reserves at commercially acceptable prices, terms and conditions could have a material adversely affect our business, financial condition and results of operations.

Acquisition of Russian real estate land plots or development rights from third parties may be costly or unsuccessful.

We may acquire land plots or development rights from third parties. Such acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of properties, as well as the potential improvements needed to increase financial returns. In particular, there can be no assurance that unanticipated problems (such as changes in laws, or the interpretation or application thereof, relating to the ownership or use of real estate, defects in title to such real estate acquired by us, as well as limited ability to insure against such events in Russia) and undisclosed liabilities or contingencies (such as the existence of hazardous substances or other environmental liabilities) will not arise with respect to the acquired properties or that the acquired properties will achieve, upon completion of the relevant development project, the anticipated sales, rental rates or occupancy levels factored into the pricing of such acquisitions.

When making acquisitions, we seek to obtain appropriate contractual protection. However, we cannot guarantee that we will be able to obtain comprehensive protection, nor can we guarantee the adequacy and enforceability of such protection (to the extent obtained). If our contractual protection is not sufficient to protect us from any liabilities of acquired entities or encumbrances of acquired properties, levels of profitability of any relevant investment may be substantially lower than our forecasts, negatively affecting our business, financial condition and results of operations. See also “— *We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report*”.

In addition, we may acquire for development land plots that have existing tenants under short-term lease agreements or under long-term lease agreements that had not yet been registered by the date when we applied to the Register. In so doing, we may acquire lease liabilities and obligations that pass to a new owner of the encumbered property. As a consequence, our earnings may be adversely affected to the extent that we are obliged to give continued occupation to tenants with lease payments below the then market rate for such development. In addition, we may incur costs in obtaining vacant possession of a site where there are existing tenants who have occupation rights that are protected by state regulations. In such case, we are required to pay compensation to such tenants. Alternatively, we may be obliged to relocate such tenants, which could delay the development of the site and add to the cost of development.

The process of acquiring legal title to our assets is time-consuming and cumbersome, and it can be difficult or impossible to establish that title is not susceptible to challenge.

Since 1998, ownership rights to and certain transactions in respect of real estate require registration with the Unified State Register of Rights to and Transactions with Real Property (the “**Register**”) and take effect only as of the time the relevant record in the Register is entered. Despite the fact that entries in the Register are considered to be the only conclusive evidence of the existence of the relevant ownership right or transaction, any interested party may challenge in court rights registered with the Register. Furthermore, ownership or other rights acquired prior to 1998 (when the Register was established) are recognised without a record in the Register, and the Register does not provide an exhaustive record of ownership or other rights acquired prior to 1998.

In addition to the Register, there is currently a separate database, the Real Estate Cadastre (which has replaced the Land Cadastre first established in 2000), which contains records regarding physical characteristics of real estate, such as the measurements and boundaries of land plots. The Real Estate Cadastre discloses certain key information in respect of land such as its location, designated use, ownership title and cadastre value. Although both the Register and the Real Estate Cadastre are expected to give clear guarantees relating to the accuracy and completeness of the information contained in these databases, there are occasions on which this has not been the case. Therefore, although we may be forced to rely upon the information contained in these databases when acquiring real property, we may not have effective redress against the authorities responsible for the maintenance of these databases if the information upon which we relied was inaccurate, misleading or incomplete.

The information in the Real Estate Cadastre and the Register may also be subject to challenge in the courts by any interested party. We did not review the most recent information recorded in the Register and/or the Real Estate Cadastre nor did we get the most recent extracts from the Register and/or the Real Estate Cadastre in relation to some of our properties described in this prospectus. Accordingly, there is a risk that the information in this prospectus describing our rights to such real estate projects and encumbrances thereof may differ from the information contained in the Register and/or the Real Estate Cadastre.

In general, we may only acquire title to assets that is as good as the title held by the seller of such assets. It can be difficult, or impossible in certain cases, to establish beyond doubt that such title is incapable of challenge. Any successful challenge to the validity of the seller's title to an asset may have adverse consequences for our title to such asset, which, in turn, could have a material adverse effect on our business, financial condition and results of operations. Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty, breach of the right of first refusal of local authorities in relation to a purchase of agricultural land, failure to receive appropriate permissions from local authorities to amend provisions relating to allowed use of property in a land lease and failure to register the transfer of title in the Register. Some of our properties were acquired from individuals, and there is no independent way for us to verify the capacity of such individuals to sell us such properties or their compliance with spousal consent requirements. As a result, defects in any of our previous real estate transactions may lead to the invalidation of such transactions, which may affect our title or lease rights to such real estate. Further, under Russian law, certain encumbrances of real estate (including rights existing before 1998, leases of less than one year and free of charge use agreements) do not need to be registered in the Register in order to validly encumber the property. Likewise, there may be valid encumbrances that existed but were not yet registered at the time when we examined the Register.

Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and any failure to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements could materially adversely affect our business, financial condition and results of operations.

Our operations and properties are subject to regulation by various governmental entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorisations, as well as with ongoing compliance with existing laws, regulations and standards. The planning and approval process in most parts of the Russian Federation is bureaucratic and involves uncertainty. For any project being developed in Russia (subject to certain narrow exceptions that do not apply to all or substantially all of our developments), the architectural and detailed project design (including building area measurements) must be approved by several administrative bodies within the appropriate local or regional government. In addition, each project must receive administrative approvals from various governmental agencies, including the fire, health and safety, environmental protection and sanitary departments, as well as technical approvals from various utility providers, including electricity, gas and sewage services.

Some of our developments are located on state-owned land. The construction of a new building on a state-owned land plot requires execution of a lease agreement and often also an investment contract with the governmental authorities. Obtaining necessary approvals and permissions for execution of the investment contract and the lease agreement is a complicated and time-consuming process. Certain permissions and authorisations may only be obtained if we have entered into a land lease agreement that is in effect when we apply for the relevant permission or authorisation. See “— *Challenges to our ownership interests or lease rights in land, our failure to enter into land lease agreements or renew land lease rights as they expire or the rescission of investment contracts could have a material adverse effect on our business, financial condition and results of operations.*” These requirements may hinder, delay or significantly increase the costs of our development activities. Moreover, a change in our development plans relating to the type of building to be constructed or its major parameters would require us to prepare a new set of detailed project design documentation and re-obtain a large number of permissions and authorisations, which would significantly delay the development process.

A number of approvals of preliminary planning design, architectural and detailed project design, as well as land lease rights and approval of the permitted use of the land, are necessary in order to receive permission to commence construction on a land plot. The construction or renovation of buildings is carried out pursuant to detailed project design documentation, and, ultimately, upon the issuance of a construction permit issued by the regional or local authorities. In some cases, we may need to have the construction permit amended to reflect changes to the scope and nature of the project. We may also obtain an order for preparation and maintenance of construction sites to commence preparation works. See “*Regulation of Real Estate in Russia — Construction and Development — Construction Permit*”. Our site preparation activities frequently include, but are not limited to, site clearing of brush and minor debris, grading general excavation and excavation for utility trenches and pile foundation works. We cannot assure you that the relevant authorities will not find these activities to constitute construction requiring a construction permit and take action against us for technical non-compliance with applicable laws, regulations and requirements in the future. Moreover, we may be subject to fines or other penalties for commencement of construction without a construction permit.

Construction without a valid construction permit is a violation of Russian law and, currently, federal and regional governments are taking steps to enhance monitoring in this field. Effective implementation of these measures might delay the completion of certain current development projects and extend overall timing required to implement

development projects in the future, which may have a material adverse effect on our business, financial condition and results of operations.

Should we fail to conform any of the projects we are developing to the project documentation or the provisions of the relevant land lease, commence construction without a construction permit or otherwise fail to comply, or be found to have previously failed to comply, with regulatory requirements, we may be subject to fines and penalties, and any incomplete construction may be considered an unauthorised construction. An unauthorised construction must be either (i) declared a property of the owner of the land plot underlying such construction by a court ruling, with us only being entitled to recover a portion of the development costs we have incurred, or (ii) demolished at the developer's expense with the subsequent cancellation of the project. Even if the construction has been approved by the relevant governmental authorities in principle, any failure to obtain any document necessary for construction or a state commissioning act upon completion of the construction will prevent us from recording our ownership title to the completed building. We will not be able to transfer any residences or other real estate units in such building or to receive the statutory protection afforded to a real property owner.

Delays in commencement or completion of construction or other defaults by us may affect our rights under land leases or investment contracts entered into with local and regional authorities or result in our incurring additional expenses.

A significant proportion of the land obtained by us from governmental authorities for development is leasehold. Each lease or investment contract requires that we develop the relevant land by a particular date. Any extension of the agreed date is at the discretion of the governmental authority. If we do not complete the development by the agreed date, we face the risk that the governmental authority may impose fines, reject our request to extend the term of the lease or the investment contract and seek to terminate the lease or the investment contract in court. In this case the development may be sold along with our remaining development rights to another developer at an auction, if such procedure is set out in the investment contract. Governmental authorities may also require the removal of the incomplete construction (unless this right is specifically excluded in the relevant lease), or, alternatively, may argue that partially incomplete construction is an "unauthorised construction" and seek a court ruling declaring them to be state property or ordering their demolition. See "*— Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and any failure to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements could materially adversely affect our business, financial condition and results of operations*". While we do not agree with such interpretation of the applicable legal rules, we are not able to predict what decision would be made by the court, should such a claim be brought against us.

In addition, there may be certain unfulfilled obligations or other defaults by us under some of our land lease agreements with state authorities, which could lead to the termination of the relevant land lease and the sale of projects constructed thereon via public auctions or entail penalties or other expenses. In particular, with regard to the Rainbow project, we are currently awaiting the calculation by St. Petersburg authorities of the extra amount that is required from us due to the deviation of the final construction area from the one initially approved under the relevant land lease agreement. We expect this amount to be in the region of RUB 200 million; however, there can be no assurance that our estimates are correct or that additional fines will not be imposed on us.

Some state authorisations and permits that are required for construction are issued for a certain term specified in such authorisations and permits. If we are unable to commence or complete any of our developments by the set dates, we will be required to apply for a renewal or extension of the respective authorisations and permits, which may be a complicated and time-consuming process. We can give no assurance that we will be successful in renewal or extension of such authorisations and permits. Our failure to ensure timely completion of the construction works may result in fines, cancellation of leases, forced auctions or other involuntary transfers of title, which could adversely affect our business, financial condition and results of operations.

Russian federal, regional and local government authorities have broad discretion over the issuance of development rights, and any deterioration of our relationships with governmental authorities may have a material adverse effect on our business.

Historically, the Russian government retained all title to land in the Russian Federation and, in most regions, including the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, local governments still maintain significant influence over the privatisation and leasing of land. Decisions on the allocation of land plots for development and on the issuance of permits and approvals necessary for construction remain subject to the broad discretion of governmental authorities; therefore, our business depends on maintaining positive working relationships with such authorities.

Although we believe that we have constructive working relationships with Russian federal, regional and local governmental authorities, including the Moscow Government and St. Petersburg Government, there can be no assurance that we will be able to establish and maintain the relationships necessary to ensure the success of our existing and future projects. Failure to establish and maintain such relationships or substantial deterioration thereof may prevent acquisitions of new land plots for our developments, or may lead to significant delays in completion of our projects, either of which could materially increase our costs, harm our business reputation or otherwise materially affect our business, financial condition and results of operations.

A number of our projects are in early stages of development, and we may not be able to complete these projects successfully. In addition, certain projects require execution of formal agreements, such as investment contracts and/or land lease agreements, which have not yet been entered into or registered with appropriate authorities. Any failure to enter into and/or register (as applicable) such contracts or agreements or to complete our projects could have a material adverse effect on our business, financial condition and results of operations.

Many of our projects are in early stages of development. According to the Valuation Report, as of 31 December 2010, approximately 52.5% of the project portfolio's total unsold net sellable area was in the design stage with respect to which we had not commenced construction yet.

In addition, we have not yet entered into or registered with appropriate authorities all the investment contracts and/or land lease agreements for our projects, and we have not yet received all required permits and approvals necessary to commence or complete the construction of our projects. There can be no assurance that we will be able to enter into or register such contracts or agreements or receive such permits or approvals in a timely manner or at all. If our development rights are successfully challenged, we will not be able to complete the development. See also “— Obtaining the requisite permits and approvals for the operation of our business is time-consuming, and any failure to comply with the terms and conditions of our licenses and permits or other governmental regulations and requirements could materially adversely affect our business, financial condition and results of operations.” Furthermore, we may not be able to complete such projects in accordance with the initially planned timetable and other parameters, including the terms and conditions of the permits and approvals we received, the contracts we entered into and the total and net areas of buildings set out in those contracts. Any failure to comply with certain material encumbrances and restrictions with respect to, or properly document our title to, our projects and fulfil investment terms thereunder may result in our inability to complete such projects.

We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report.

We have not yet obtained and properly registered lease rights to the land-plots underlying our project Kremenchugskaya street-11 and ownership rights to the land plots underlying our projects Obukhovskoy oborony prospect-110 and Uralskaya street-2, which, as of 31 December 2010, represented approximately 5.4% of the project portfolio's total Market Value according to the Valuation Report.

We have entered into an investment agreement with LLC Rosregionproject Development relating to the development of the Kremenchugskaya street-11 project, which contemplates our entering into lease agreements with respect to land plots underlying this project by 30 April 2011. Pursuant to the investment agreement, we have a right to obtain lease rights to the project land to be divided into plots in accordance with the phases of construction. For more details see “*Business — Residential Development — Description of our Portfolio Projects — Residential Real Estate Projects — Kremenchugskaya street-11*”. As of the date of the prospectus, we have not yet entered into lease agreements in respect of these land plots.

Therefore, we have not yet secured title relating to the land plots under such projects, which is necessary to complete the development of the projects. We cannot assure you that these lease agreements will be concluded as currently envisaged by the investment agreement, that we will be successful in securing the relevant lease agreements or that no modifications will be made to the terms of these agreements, which may be less favourable to us (including the price of the rights to the land plots concerned). Moreover, according to the terms of the investment agreement, the parties have the right to unilaterally terminate such agreement if the lease agreements are not entered into when described above; therefore, we cannot assure you that our counterparty will not terminate the investment agreement.

We have entered into preliminary sale and purchase agreements with LLC Masterkom and several private individuals to acquire ownership rights to the land plots underlying our Uralskaya street-2 project and non-residential buildings currently located thereon which contemplates our entering into final sale and purchase agreements with respect to these land plots and buildings later this year. Similarly, we entered into a preliminary sale and purchase agreement with Simtan Ventures Limited to acquire ownership rights to the land plot underlying

our Obukhovskoy oborony prospect-110 project and non-residential buildings currently located thereon; however, Simtan Ventures Limited has transferred its rights to the land plot and non-residential buildings to its beneficial owner, a private individual with whom we have a commercial understanding reflected in a non-binding term-sheet that provides that he will transfer such rights to us in accordance with the same terms and conditions as provided in the aforementioned preliminary sale and purchase agreement.

Notwithstanding such preliminary sale and purchase agreements and commercial understandings, as of the date of the prospectus, we have not yet entered into final sale and purchase agreements in respect of these land plots and buildings or paid the relevant purchase price. Therefore, we have not secured ownership title relating to the land plots under such projects and buildings located thereon, which is necessary to complete the development of the projects. We cannot assure you that these preliminary sale and purchase agreements and commercial understandings will be implemented as agreed, that we will be successful in securing the relevant final sale and purchase agreements or that no modifications will be made to the terms of these agreements, which may be less favourable to us (including the price of the rights to the land plots and buildings concerned). With respect to our Uralskaya street-2 project, acquisition of the land plots and buildings from the private individuals is subject to such individuals procuring proper formation of the boundaries of the land plots and registration of their ownership rights to these assets with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region. There can be no assurance that these individuals will be successful in registering their ownership rights in the timeframe anticipated or at all. Further, with respect to our Obukhovskoy oborony prospect-110 project, we have no binding agreement with the private individual requiring him to honour the terms of the preliminary sale and purchase agreement with Simtan Ventures Limited, and there can be no assurance that such private individual will honour our commercial understanding. Moreover, in the event that there is any defect in the transfer of this property from Simtan Ventures Limited to its beneficial owner prior to our entering into a final sale and purchase agreement and such transfer is challenged by tax or other governmental authorities, there can be no assurance that such authorities would not seek to enforce rights over the property or otherwise invalidate its transfer to us. As a result, we cannot assure you that we will be successful in obtaining and/or securing the relevant ownership titles for these properties.

In addition, Russian law and practice relating to enforcement of preliminary and final sale and purchase agreements involves uncertainty, and we cannot assure you that such preliminary or final agreements can be enforced as contemplated or at all. Thus, we cannot guarantee that we will be able to successfully enforce our rights to acquire the land plots subject to such preliminary and final sale and purchase agreements should we be required to do so. If any of the lease agreements to the land plots underlying our project Kremenchugskaya street-11 are not entered into and preliminary or final sale and purchase agreements to the land plots underlying our projects Obukhovskoy oborony prospect-110 and Uralskaya street-2 are not implemented as agreed and we fail to secure rights necessary to complete the development of these projects, our business, financial condition, results of operations and prospects could be materially adversely affected.

Our developments and properties may be frequently inspected by Russian regulatory authorities, and any determination made by such authorities that we are in violation of applicable laws, regulations, standards or licenses may result in sanctions that materially adversely affect our business.

Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards; the issuance and renewal of licenses, permits, approvals and authorisations; and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct inspections of our operations and properties. Any such future inspections may determine that we have violated laws, decrees or regulations, and we may be unable to refute such determination or remedy the violations. Any failure to comply with existing laws and regulations, the terms and conditions of our licenses and permits, or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorisations, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition and results of operations.

Our project portfolio has been historically and still is geographically concentrated in the St. Petersburg Metropolitan Area, and our recent expansion into the Moscow Metropolitan Area may not be successful.

The majority of our real estate properties are located in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. As a result of this geographic concentration, we are dependent on the political and economic development of only two regions of Russia. Any change in the local political or regulatory environment, including

at the level of the city government of St. Petersburg or Moscow, decline in economic activity or weakness in the local real estate market could materially adversely affect our business, financial condition or results of operations.

We expanded our development activities into the Moscow Metropolitan Area in 2008 by commencing the Emerald Hills development project, where we are currently in the process of pre-selling the flats. In 2010, we commenced the Etalon-City project, which is currently in the design stage of the development. Our expansion is based on our forward-looking assessment of market prospects. There is no assurance that our assessments will turn out to be accurate and our revenue from developments in the Moscow Metropolitan Area will grow at the rate we anticipate or at all. In addition, we may not have the same level of familiarity with local subcontractors, suppliers, business practices and regulations and the same level of established relationships with the local authorities, subcontractors and suppliers, any of which may put us in a less competitive position as compared to developers with a better established local presence and stronger ties with local authorities, contractors, suppliers and purchasers. If we fail to generate revenue from developments in the Moscow Metropolitan Area in line with our expectations or suffer significant financial losses in connection with our expansion, it could have a material adverse effect on our business, financial condition or results of operations.

The real estate industry in Russia is highly competitive, and we may not be able to compete successfully.

The real estate industry in Russia is highly competitive. We face competition from a number of large national and regional property developers and overseas developers with operations in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. Some of them may have greater financial, technical, marketing and other resources than us and greater economies of scale, broader name recognition and more established relationships in the market. We believe that the main competitive factors in the real estate development business in Russia include availability and location of land, terms and availability of financial resources, characteristics of projects, quality of the developed flats and reputation of the developer. Competition among property developers may cause increase in raw material costs, shortages in quality construction contractors, surpluses in property supply leading to decreased property prices and delays in the issuance of government approvals and permits, and higher costs. Competition may also lead to a significant increase in prices for land available for development or real estate available for sale or an increase in prices to enter into investment contracts as a co-investor, impeding the acquisition of new assets for our property portfolio. Our inability to compete successfully could result in reduced operating margins and an inability to increase our market share, which, in turn, may have a material adverse effect on our business, financial condition and results of operations.

Existing and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to enhance their ability to address the needs of prospective customers with a view to reducing our market share. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. As a result, our competitors may be able to adapt more quickly than us to changes in customer requirements, and may be able to devote greater resources to the promotion and sale of their projects. If we fail to respond to such pressures effectively could result in a material adverse effect on our business, financial condition and results of operations.

We may not be able to achieve our production plan or our sales targets.

We have made certain forward-looking statements in this prospectus relating to our planned completion of development projects. Our forecasts were also used by JLL in the preparation of the Valuation Report. We may not achieve this production plan as a result of a number of factors, including the risks described in this prospectus. In particular, our plans for the second half of 2011 and beyond are especially susceptible to uncertainty and change. As a result of the economic downturn, the Russian economy in general and the real estate market in particular have been extremely volatile, making any plans or forecasts even more uncertain than is usually the case. Moreover, our sales largely depend on the success of the federal government in supporting the development of the residential mortgage market in Russia, which is beyond our control. Furthermore, the periods in which we complete our projects may not coincide with the actual recognition of revenues related to the projects in our financial statements. In addition, some of our developments include a large number of residential buildings that are concentrated in certain neighbourhoods in the St. Petersburg Metropolitan Area. There can be no guarantee that we will be able to sell all of the residences in a particular development or neighbourhood, particularly if market conditions deteriorate.

Our profitability and results of operations depend on success of our nationwide sales network.

Approximately 27.9% of our pre-sales and sales contracts concluded in 2010 were generated through our nationwide sales network in the other regions of Russia, where customers buy our properties in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area to relocate or as a secondary housing. Should this trend

discontinue, we may face significant decrease in our revenue from pre-sales and sales of flats, which could have a material adverse effect on our business, financial condition or results of operations.

Our results of operations may be highly variable, which may adversely affect our ability to plan our budget or business activities.

We have in the past experienced and may continue to experience significant variations in revenues and profits from period to period. These variations can generally be attributed to the fact that, at times, our revenues and profits are earned upon the completion of a project. For example, we may have periods in which we complete and sell a large number of projects, which could generate high levels of revenues for that period, but we may have fewer projects in development, which could negatively affect revenues in future periods. In contrast, we may have periods in which we complete and sell only a small number of projects, which could generate lower revenues, but we may have a large number of projects in development, which could generate higher revenues in future periods. Accordingly, the types and amount of properties that we have sold in any particular period will have a significant effect on our results of operations and the sources and amount of our cash flow from operations. Such financial results may not be indicative of the relative medium-term contribution of each of our business segments to our overall business or of our overall financial condition or prospects. Our earnings also can be adversely affected if any particular project is not completed or is significantly delayed.

The effect of the timing of project delivery on our operational results is accentuated by the fact that during any particular period of time, we can only undertake a limited number of projects due to substantial capital requirements for land acquisition and construction costs.

As a result, it may be difficult for us to report steady earnings growth and plan our budget and business activities on a period-to-period basis. Failure to achieve expected revenue in any fiscal period or unanticipated variations in the timing of recognition of specific revenues can cause significant variations in our results of operations from period-to-period and may in some future period result in losses.

Deterioration in our brand image could adversely affect our business.

We rely to a significant extent on our brand name and image to attract potential customers. Any negative incident or negative publicity concerning us or our properties could adversely affect our reputation and business prospects. Brand value is based largely on consumer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade consumer trust. Consumer demand for our products and our brand value could be significantly diminished if we fail to preserve the quality of our products or to deliver a consistently positive consumer experience in each of our residential complexes, or if we are perceived to act in an unethical or socially irresponsible manner. We are particularly reliant on our brand recognition and image to generate sales through our nationwide sales network in certain regions of Russia where we do not have property projects. Any negative publicity and resulting decrease in brand value, and/or failure to establish our brand in these regions could have a material adverse effect on our business, results of operations and financial position.

The development and sale of residential properties may result in legal proceedings being brought against us.

The development and sale of residential properties may result in legal proceedings being brought against us in connection with construction delays or delays in obtaining the appropriate title registrations from local and regional authorities. The process of preparation of all necessary documents for registration of title may be time-consuming. Moreover, registration of title cannot be performed until we obtain an investment contract acceptance act, which certifies that we have duly performed our obligations under the investment contract and which is executed only after we have completed the construction of certain elements of social infrastructure. See “— *Our interest in a development under an investment contract may be reduced by governmental authorities, seeking to increase their interest in certain circumstances.*” Our failure to prepare the required documentation promptly upon completion of construction may result in complaints of our customers or court claims brought against us. Such claims or complaints may result in the imposition of administrative fines on us and may have a material adverse effect on our reputation with existing or potential customers.

Before June 2010, when Russian Federal Law No. 119-FZ “On Amending the Federal Law On State Registration of Real Property and Transactions Therewith and Certain Other Legal Acts of the Russian Federation,” came into effect, we used certain financial arrangements not expressly provided for in the Cost Sharing Law, which allowed us to receive funds from potential purchasers of residences at various early stages of the construction process. If such alternative financial arrangements as well as the arrangement we now use are found to be in violation of the Cost Sharing Law, we may be required to return funds (together with interest) to investors or owners of apartments who participated in such arrangements and to pay administrative fines. See “— *Our ability to finance construction*

projects may be materially adversely affected by the Cost Sharing Law.” In addition, construction delays or delays in obtaining the appropriate title registrations with respect to properties that were sold on the basis of cost sharing agreements entitle individual investors to claim an immediate refund of the entire amount paid by them, together with the accrued interest, without the need to provide evidence of the existence of any usual grounds for rescission of the sale contract (e.g., a materiality of our breach). If a significant number of individual investors decide to bring such claims against us, we may not be able to satisfy these claims, which may have a material adverse effect on our business, financial condition and results of operations.

Legal proceedings may also be brought against us in connection with materials used or defects in the properties sold by us, or by third parties engaged by us, such as architects, engineers and construction contractors or sub-contractors, or as a result of other factors. Although we believe that the materials we use and have used in the construction of our developments comply and have complied with all applicable laws and regulations in force at the time of their use, these laws and regulations are subject to change. If any claims relating to materials used or defects found in the sold properties are brought against us, we will be exposed to investigation and defence costs, as well as liability for damages. Damages could include, among other things, the costs of remediation, loss of property and costs of health-related bodily injury. The costs of insuring against construction defects and building material products claims and health-related bodily injury are high, and the amount of coverage offered by insurance companies is also currently limited. As a consequence, some or all of the financial risk associated with building material products and construction defects is borne by us, and we may be liable in amounts that exceed available limits on our comprehensive general liability policies or that are excluded from coverage.

In addition, even if a claim relating to the quality and safety of our buildings is not successful or is not fully pursued, any negative publicity could have a material adverse effect on our reputation with existing or potential customers and on our business, financial condition and results of operations.

Zoning restrictions and local opposition can delay or preclude construction.

In order to develop a property on each particular site, the zoning of such site must permit the construction. Zoning classification of a land plot specifies the type of building or complex that may be constructed on such land plot (residential, office and/or other types) and the major parameters of the building (or the complex of buildings), including its height. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, we will be required to apply for the required zoning classifications. This procedure may be protracted, and we cannot be certain that the process of obtaining proper zoning will be completed with sufficient speed to enable us to complete a residential or commercial development on schedule, or at all. A change in our development plans relating to the type of building to be constructed or its major parameters would require us to re-apply for zoning classifications, which would significantly delay the development process. In addition, changes to applicable zoning by the relevant authorities, which may at times be arbitrary, may jeopardise projects that have already been commenced.

Legislation requires that public opinion be taken into account by the authorities when considering a change of the zoning classification. Once initial public hearings have been conducted and all state approvals have been obtained, the authorities are not obligated to consider changes in public opinion. However, there have been a number of cases in St. Petersburg where the authorities have changed their decisions or halted proposed developments in response to adverse public opinion. Were this to happen to any of our developments, it could have a material adverse effect on our business, financial condition and results of operations. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays.

To manage our exposure to the risks associated with zoning restrictions, we seek to purchase land for development or acquire development rights in relation to a land plot for which proper zoning and, in some cases, initial permitting are already in place. However, with regard to several land plots in St. Petersburg (in particular, Talisman, Prestige, Orbit, Etude, Oktyabrskaya embankment-118 and Smolenskaya street-9) we note that, while in accordance with the recently adopted town-planning and zoning regulations of St. Petersburg the relevant land plots are intended for construction of residential multi-apartment buildings, the records in the Real Estate Cadastre and/or Register evidence that the permitted use of those land plots is for industrial use (in case of Talisman, Orbit and Smolenskaya street-9), financial and credit objects (in case of Prestige), educational objects (in case of Etude) or military objects (in case of Oktyabrskaya embankment-118). Accordingly, in the course of development, we will need to agree upon the change of the permitted use with the relevant authorities in order to bring it into compliance with the recently adopted town-planning and zoning regulations. These requirements may hinder, delay or increase the costs of our development activities. In the event that we fail to obtain zoning approvals, or the existing zoning approvals are arbitrarily revoked or if the procedures for the receipt of such zoning approvals are delayed, our costs will increase

or we may be forced to change our development strategy with respect to one or several properties, which could have a material adverse effect on our business, financial condition and results of operations.

Some of our developments may be subject to historical preservation laws and other planning restrictions.

From time to time, we develop real estate projects on sites that have been designated as cultural heritage sites, for example, the centre of St. Petersburg. Our activities within these areas are subject to both federal and local regulations relating to the preservation of cultural heritage sites, which often conflict. See “*Regulation of Real Estate in Russia — Construction and Development — Restrictions in the St. Petersburg preservation zone*”. If we are found to be in violation of these local or federal regulations, we may be subject to legal proceedings and fines or the termination of our construction permit in relation to that development. Regulatory authorities may also base their approvals upon the opinion of preservation experts, which may not be consistent with applicable legislation. In addition, some of our project land plots are covered by protection zones around natural (e.g., rivers) or industrial (e.g., utilities infrastructure or metro) objects, and our activities within these zones are limited or entirely prohibited. We have to observe the legal regime of these special zones during the design and construction phase of our development, and failure to do so may lead to suspension of our activities, administrative fines or, in the worst case scenario, demolition of the infringing project. Any of these regulations may restrict our current and future ability to develop and/or construct our projects on favourable terms, or at all, which could have a material adverse effect on our business, financial condition and results of operations.

Challenges to our ownership interests or lease rights in land, our failure to enter into land lease agreements or renew land lease rights as they expire or the rescission of investment contracts could have a material adverse effect on our business, financial condition and results of operations.

Our business includes the acquisition of ownership or lease interests in land plots and buildings in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area that we intend to develop or redevelop further. Russian legislation related to real estate is complicated and often ambiguous and may be contradictory at the federal and regional levels. In particular, it is not always clear which state bodies are authorised to enter into land leases and sale and purchase agreements with respect to particular land plots or what exact procedure should be followed, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with in practice. As a result, our ownership of and/or lease rights to land and buildings may be challenged by governmental authorities or third parties, and our construction projects may be delayed or cancelled. Our failure to make timely rental payments under lease agreements may lead to termination of lease agreements that could materially adversely affect our operations.

Where the original term of some of our lease agreements in respect of state-owned land has expired, we need to enter into new lease agreements with the relevant governmental authorities (or, if applicable, extend the existing lease agreements) in order to receive a construction permit, to obtain its renewal, or to proceed with construction. An investment contract entered between a developer and a regional or local government often serves as a condition to execution and renewal of our land lease agreements. At the same time, our failure to enter into a land lease agreement promptly after the execution of the investment contract may constitute a material breach of the investment contract. Material breach of the investment contract may entitle the regional or local government to impose contractual penalties on us or rescind the contract and terminate our development rights. In some cases, we acquire shares of participation in existing development projects with an unrelated entity acting as a co-investor. Material breach of an investment contract by a co-investor that is not remedied by such investor or by us (on the basis of an agreement with the co-investor in exchange for an additional share in the project) may result in imposition of penalties on us, delays in completion of the development project or rescission of the investment contract in its entirety and termination of our development rights.

Our business may be harmed if our land leases are terminated or if we are unable to renew our land leases designating development rights on commercially acceptable terms or at all for any reason, including the rescission of the investment contract. In the event of termination of a land lease (whether during the term, generally for breach, or at the expiry of the term) under the Civil Code of the Russian Federation, there is a risk that the landowner will acquire the right to buy the building in question on that land at a price to be determined by a court. Due to a lack of court practice or precedent on how these provisions will actually operate, our position, and the ongoing status of our investment, will be unclear upon termination of any land lease rights. If we are unable to renew our land leases as they expire, or if our existing leases are terminated for any reason or if their terms are revised to our detriment, or if our investment contracts are rescinded, our business, financial condition and results of operations could be materially adversely affected.

We may be subject to unexpected fluctuations in the rents we pay in respect of land leases.

We have entered into, and expect to enter into in the future, lease agreements with local and regional authorities in respect of properties being developed, or to be developed, by us. One of the standard terms of such lease agreements is the provision entitling the landlord to change the amount of the rent payable without our consent, including, *inter alia*, when legislation establishing the rates of lease rental for the use of state-owned land is changed. Any such action may increase the rent payable by all tenants of the applicable governmental entity within that category of tenants to which the increase applies. Rental rates are revised from time to time by the respective local and regional authorities. As such, relevant lease agreements must comply with such resolutions of these authorities. Where the terms of the lease agreements provide for the rent payable to be determined in the conventional units, which are tied to a foreign currency, revision of the exchange rate of such currency may lead to an increase of our rental payments for the land plots.

We are not able to control the level of rent payments for the land that we use for our development projects, which makes it difficult to predict our future expenses and calculate the amount of working capital required for our developments. Unpredicted and significant increases of the amount of rent that we pay for land plots where our developments are located may materially adversely affect our prospects, business, financial condition and results of operations.

Our interest in a development under an investment contract may be reduced by governmental authorities, seeking to increase their interest in certain circumstances.

Where we acquire development rights under an investment contract with local or regional authorities, such authorities frequently retain an interest in the developments. This interest is determined on a case-by-case basis. In some instances, we agree to incur additional expenditure in relation to the development (relating to, for example, enhancements to the city's infrastructure) in order to reduce the government's share, where such expenditure is reflected in the relevant investment contract. Under certain circumstances, the government entity may try to increase its percentage ownership of a project or seek to increase the payment required to transfer ownership to us.

Where we agree or are required to incur additional expenditure for infrastructure enhancements or the construction of other special projects, the amount of such expenditure is usually estimated in the investment contract. In the past, actual expenditures for such projects have often been significantly higher than estimated, thus reducing the overall profitability of certain of our developments. In addition, the Moscow authorities have adopted and the Moscow region and St. Petersburg authorities plan to adopt technical standards and regulations according to which each large residential development should include certain elements of social infrastructure, including schools, kindergartens, clinics and parking spaces. These requirements may reduce the profitability of our development projects, since such elements of social infrastructure may be sold at a loss.

If we fail to complete the construction of the social infrastructure as set forth in the investment agreement, the governmental authority may refuse to execute an investment contract acceptance act, which certifies that we have duly performed our obligations under the investment contract. For Russian profits tax purposes, we are permitted to recognise our income and expenses related to the completed construction only upon the execution of the investment contract acceptance act. Delays in the execution of the investment contract acceptance act may, therefore, have a material adverse effect on our business, financial condition and results of operations.

Shortages of components and materials may delay our projects or reduce our sales and increase our costs, and our financial results are in part dependent on volatile prices for these components and materials.

Our construction projects require supplies of components and raw materials, including cement and metal, and any inability to obtain sufficient quantities of raw materials necessary for our projects at acceptable prices or at all could result in delayed completion times and/or increased costs due to the need to identify additional suppliers. Any supply interruption or shortages may delay the construction of our projects, which, in turn, could harm our reputation with our customers and may result in lost sales opportunities.

In addition, the prices of the raw materials we use in our construction process, such as cement and metal, are difficult to forecast over the long term. We do not control a number of factors affecting prices, which include, but are not limited to, regional supply and demand and expectations of future supply and demand. Our financial results may be adversely affected by significant, sustained increases in the prices of raw materials, and in particular cement and metal.

We depend on external subcontractors to perform certain types of construction and development activities.

We rely on external subcontractors to perform certain types of construction and development activities. In particular, we engage subcontractors to supply services in, *inter alia*, interior finishing, lift installation, plumbing and electrical works. If we cannot enter into subcontracting arrangements on acceptable terms or at all, we will incur additional costs, which may have an adverse effect on our business. The competition among developers for the services of quality subcontractors may cause delays in construction, exposing us to a loss of competitive advantage. Because of such competition, subcontracting arrangements may be on less favourable terms than otherwise available, which may result in increased development and construction costs. By relying on subcontractors, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects and the financial stability of the subcontractors. A shortage of workers would also have a detrimental effect on our subcontractors and us and, as a result, on our ability to conclude the construction phase of our projects on time and within budget. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

Without sufficient local infrastructure, our construction projects may be delayed, or we may be unable to realise the full expected value of our completed projects.

The construction of our projects and their viability, once completed, depend on the availability and sufficiency of local infrastructure, including electricity and other utilities, such as gas, heating, telecommunications and sewage services. Since the availability and maintenance of local infrastructure outside the perimeter of our developments is dependent upon the continued and timely co-operation of third parties, any delay, interruption or inability to ensure the supply of these and other utilities may cause a delay in completing any or all of our developments and affect the value or marketability of properties. Any such delay or inability to realise the full expected value of our completed projects may adversely affect our business, financial condition and results of operations. See “— *Risks relating to the Russian Federation — Economic Risks — We could experience disruptions in our normal business activities as a result of problems associated with Russia’s physical infrastructure.*”

The construction of buildings is subject to a wide range of technical standards and regulations, the amendment and modification of which may significantly increase our expenses.

The regulation of the construction market in the Russian Federation includes a wide range of technical standards approved by the relevant authorities. These standards are subject to review and amendment from time to time. If significant modifications to these standards are introduced, we may be forced to change our construction processes, which could require additional expense, adversely affecting our business, financial condition and results of operations.

Real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because determining such values is an inherently subjective process. In addition, an appraisal may not be directly comparable to those given in respect of similar portfolios held by other real estate development businesses in the Russian market as a result of differing assumptions and methodologies.

JLL, an independent real estate appraiser, has prepared the Valuation Report on the basis of certain valuation methodologies and assumptions regarding the Russian real estate market and the projects in our portfolio. See the Valuation Report and “*Business — Real Estate Development — Valuation of our Properties*”. The valuation of real estate and real estate related assets is inherently subjective. As a result, valuations are subject to uncertainty. A number of factors could result in the values that JLL has ascribed to these properties and projects differing materially from the actual market value of such projects.

The valuations contained in the Valuation Report are stated as of 31 December 2010, and although we believe there has been no material change to the aggregate market value of our properties, there can be no assurance that these figures accurately reflect the market value of our properties as of any other date. The market value of our properties may decline significantly over time due to various factors. In addition, the values ascribed by JLL should not be taken as an indication of the amounts that could be obtained by us upon disposal of such properties, whether in the context of the sale of individual properties or the portfolio as a whole.

All real estate valuations, including those contained in the Valuation Report, are made on the basis of assumptions, which may not prove to reflect the accurate fair market value of the project portfolio. For example, JLL made assumptions as at and prior to the date of the Valuation Report as to project tenure and phasing, timing of payments for the cost of land and payments to be received from purchasers of units, rates of inflation and costs of borrowing over time, and infrastructure and construction costs based in part on information provided by us and which may have varied if made as of the date of this prospectus or may not be realised in practice. In addition, in respect to

certain projects where we had not entered into final sale and purchase agreements or obtained rights necessary to complete the development of such projects, JLL included such projects in the Valuation Report on a special assumption that such rights necessary to complete the development of the projects will be obtained and properly registered in the near future. See also “— *We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report*”. Some or all of these assumptions may prove to be inaccurate in due course.

Moreover, using different assumptions or valuation methodologies may produce different valuation results. In particular, all of the properties in the course of development were valued in the Valuation Report using the residual site appraisal approach using the discounted cash flow methodology, cross-checked with comparable evidence where available. In Russia, a lack of transparency and a relatively low volume of recorded transactions make it difficult to assess market values using the more common sales comparable approach. These factors and the wide variation in returns required on Russian projects from different investors also make it difficult to correctly assess market derived discount rates. Deal information, even if reported, is rarely reported accurately and is often manipulated in a manner so as to benefit the parties to the transaction.

JLL has also used various valuation methodologies intended to remove certain variables from the valuations. For example, where the projects are in an early stage of development and full permission from the local authorities has not been obtained, JLL considered our business plan to develop each such project. Each valuation, nevertheless, reflects JLL’s opinion of the highest and best use for the project in question. The “Highest and Best Use” is defined in Paragraph 3.4 of the International Valuation Standards as “the most probable use of a property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued”. Therefore, JLL’s valuations do not necessarily reflect our intended development programme. JLL valued the properties on the basis of an arm’s length transaction, taking no account of financing costs, taxation or other expenses associated with realising value, and assumed values it deemed appropriate for assessing capital value but which may not be appropriate in other circumstances. Furthermore, the Valuation Report does not consider any effect of multiple properties being developed concurrently or released to the market together, which may tend to reduce the realisable value of a particular project. On this basis, there is a risk that the valuations contained in the Valuation Report may not represent the actual value of our completed projects.

Prospective investors are urged to read the Valuation Report in its entirety. For the reasons stated above and in the Valuation Report, the Market Values stated in the Valuation Report should not be taken as indication of the proceeds that we could realise from the sale of any of our portfolio properties.

The final building area and net sellable area for projects in development may differ materially from the gross building area and net sellable area set out in the Valuation Report.

For projects that are in the development stage, gross building areas and net selling areas are not fixed until the authorities have granted final construction permits, which specify the areas that we are entitled to construct. Where the gross building area for a property was not fixed at the date of the Valuation Report, in some instances, JLL relied on information provided by us in relation to gross building area. Net selling areas for the properties in the Valuation Report were based on information provided by us. In some cases, such net selling areas differed from those indicated in certain governmental permits and preliminary design documentation that JLL reviewed. However, in the majority of these cases, the differences in area were within the range that we believe is common practice in the local market and often occurs at early development stages, as investment contracts are stated in approximate areas.

Our assumptions and forecasts with respect to the net selling areas of our developments may be subject to significant changes in the future. We have not started construction at many of the developments in the Valuation Report. Many such properties are at the early stages of development, and detailed project design documentation, which specifies major parameters of the future construction work, may not exist. We commonly prepare detailed project design documentation for our developments one or two years before we obtain the construction permit and commence construction. Our calculation of net selling areas for the properties at the earlier stages of development is based on the estimates of our management, which have not been independently verified and reflect our then current understanding of our strategy and development plans.

The gross building areas and net selling areas in the Valuation Report for certain development projects, therefore, are only an estimate of the area that we are able to construct, and we can give no assurance that we will construct all such amounts of building area and selling area. For purposes of the valuation, JLL assumed that we will be able to obtain all permissions required to complete construction of our projects in accordance with the business plans provided to JLL and that there will be no additional costs or delay associated with this construction. However, the final gross building area and net selling area for a development project as set out in the relevant permit may differ materially from the gross building areas and net selling areas used in the Valuation Report. In the event that the final

net sellable areas, or the measurements calculated by the Bureau of Technical Inventory, are lower than information we have provided to JLL, the Market Value may be higher than the value we may ultimately realise from the sale of the completed properties. In addition, our legal share of the total net sellable area and corresponding Market Value of the Etalon City project may ultimately be significantly less in the future, depending on the percentage of the total net area ultimately transferred to M&L Development LLC pursuant to the terms of the final sale and purchase agreement to be entered between M&L Development LLC and our subsidiary SSMO LenSpetsSMU. See “*Business — Residential Development — Description of our Portfolio Projects — Etalon City*”.

The limited availability, quality and reliability of market data create uncertainty as to property values and market conditions.

The real estate market in Russia is characterised by a limited amount of publicly available data and independent research compared to certain other industrialised countries. A small number of private organisations have begun to publish statistical and other research data with respect to the Russian real estate market. Primarily due to the relatively short period of time for which such data has been collected and published, the scope of such data is significantly narrower and tends to be less consistent than the data relating to certain other industrialised countries, and it may be difficult to analyse market trends and conditions over time or at all. The relative lack of such data makes it more difficult to assess the market values of real estate in Russia than in, for example, Western Europe.

This restricts our ability to forecast market prices, property-related costs and property values. In connection with our acquisition of land for our development business, we base our purchase price in part on estimates of the anticipated returns on our investment. Any failure to forecast accurately such values and prices could result in lower profits and have a material adverse effect on our business, financial condition and results of operations.

We estimate construction time and costs in order to determine the tender price for construction services to third parties. However, the actual implementation of a project may not accord with such estimation due to cost overruns and other related construction risks.

In 2010, we derived approximately 8.0% of our revenue from provision of construction services to third parties. We normally secure project works through a competitive tender process. To determine the tender price, we estimate construction time and costs. However, the actual implementation of a project may not accord with such estimation due to cost overruns and other related construction risks. Construction contracts are normally awarded through competitive tendering process. We need to estimate the construction time and costs in order to determine the tender price. There is no assurance that the actual construction time and costs would not exceed our estimation during the actual implementation of the project, which often takes months or years to complete.

The time taken and the cost actually involved in completing construction projects undertaken by us may be adversely affected by many factors, including shortage and cost escalation of materials and labour, adverse weather conditions, additional variations to the construction plans requested by the customers or because of technical construction needs, disputes with subcontractors, accidents, changes in the Government’s priorities and unforeseen problems and circumstances. Any of these can give rise to delays in completion of construction works or cost overruns or even unilateral termination of projects by customers.

Delays in the process of obtaining any specific licences, permits or approvals from Government agencies or authorities required for a particular construction project can also increase the cost or delay the progress of a project. Failures to complete construction according to specifications and quality standards on a timely basis may result in disputes, contract termination, liabilities and/or lower returns than anticipated on the construction project concerned. Such delays or failures to complete and/or unilateral termination of a project by customers may cause our turnover or profitability to be lower than what we have expected.

We do not have a Group-wide fully integrated automated information system for the preparation of IFRS financial statements, which may adversely impact our ability to prepare accurate financial information.

We have identified that certain of our internal controls are materially weak. A material weakness is a weakness in the design or operation of one or more internal control components that does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We have identified that certain of our internal controls in the area of the financial statement preparatory process are materially weak. In particular, we do not have a fully integrated automated accounting system for financial statement preparation, transformation and consolidation or an established system for checking entries or for the conversion of management or statutory accounts into IFRS. Each of our subsidiaries prepares separate financial statements under Russian accounting standards for statutory

purposes. The preparation of our IFRS financial statements is primarily a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into IFRS schedules through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming. It requires significant attention from our senior accounting personnel and may increase the likelihood of errors in our financial statements. Moreover, the complexity of the process of IFRS financial statements preparation makes it challenging for us to comply with changing IFRS reporting requirements, including new requirements that apply to the presentation of operating segments.

To help address the above weaknesses, we are in the process of implementing a single Group-wide information system featuring automated consolidation of accounts on an IFRS basis. Although we anticipate that this measure will address the risks described herein, there can be no assurance that it will in the manner expected or that it will be implemented on the timetable currently anticipated by the Company.

If we are unable to maintain adequate financial reporting functions and internal control systems, our business, revenue, financial condition, results of operations, prospects or the trading price of the GDRs may be materially adversely affected.

Notwithstanding these risks, we believe that our financial reporting functions and internal control systems are sufficient to ensure our compliance with the requirements of the FSA's Disclosure and Transparency Rules as a listed company, and we believe that, in particular, despite the difficulties identified by us, we will be able to prepare and produce accurate financial information in a timely manner.

Our results of operations could be adversely affected by currency fluctuations.

Our presentation and functional currency is the Russian Rouble. We are exposed to currency risk on borrowings denominated in U.S. dollars and finance lease liabilities denominated in U.S. dollars and Euros. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Quantitative and Qualitative Disclosures about Market Risks-Foreign Exchange Risk". Accordingly, the depreciation of the Rouble against the U.S. dollar would increase the Rouble equivalent of our borrowings, finance lease liabilities and their respective associated costs denominated in U.S. dollars and the depreciation of the Rouble against the Euro would increase the Rouble equivalent of our finance lease liabilities and associated costs denominated in Euros. Our policy is not to use foreign exchange hedges to manage our foreign exchange risk. As a result, our results of operations are subject to exchange rate fluctuations, which may have a material adverse effect on our business, financial condition and results of operations.

Our success depends on our senior management team and other key personnel, as well as on highly skilled employees that may be difficult to recruit and retain.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the services of our senior management team and other key personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. As a result, we may not be able to retain and attract qualified personnel to fill key positions. A loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success also depends in large part on our ability to attract, motivate and retain highly skilled real estate experts. Competition for skilled labour is intense in the Russian construction and development industry. The demand for skilled engineers, technicians, sales personnel, construction workers and operators of specialised equipment continues to increase, reflecting the significant demand from other industries and public infrastructure projects. Further increases in demand for skilled labour are likely to lead to increases in labour costs, and the resources required to attract and retain such personnel, which in turn may adversely affect our operating margins. As such, we may be unable to continue to attract and retain the skilled employees we require, and any inability to do so could adversely impact our ability to manage and complete our existing projects. The failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations.

We will remain under the control of the shareholders from the Zarenkov family, whose interests could conflict with those of the holders of the Ordinary Shares and GDRs.

Our founding shareholder, Mr. Viacheslav Zarenkov, together with his wife, Ms. Galina Zarenkova and their son, Mr. Dmitri Zarenkov, indirectly controlled approximately 63.2% of our outstanding Ordinary Shares as of the date of this prospectus. Following the Offering, the Zarenkov family jointly will continue to hold a controlling interest in the Company, through beneficial ownership of approximately 47.2% of our issued Ordinary Shares (or

approximately 43.0% if the Over-allotment Option is exercised in full). Mr. Viacheslav Zarenkov is also Chairman of our Board of Directors and President of the Group, and Mr. Dmitri Zarenkov is a member of our Board of Directors and First Vice-President of the Group. Accordingly, the Zarenkov family will be able to control or exercise significant influence over matters relating to us, including, but not limited to, decisions on amendment of our memorandum and articles of incorporation, proposed substantial sale of assets or other major corporate transactions, election of the members of the Board of Directors, appointment of our senior managers, declaration of dividends and the determination of our policies. Their continued significant shareholding in the Company may have the effect of making certain transactions more difficult without their support and may have the effect of delaying or preventing an acquisition of or other change in control in us. The interests of the Zarenkov family may also differ from the interests of other holders of Ordinary Shares and holders of GDRs and may materially adversely affect the value of any investment made by such other holders of the Ordinary Shares and holders of GDRs. There are no measures in place to ensure the control exercised by the Zarenkov family is not abused.

In addition, a disagreement between two of the controlling shareholders (Mr. Viacheslav Zarenkov and Mr. Dmitri Zarenkov), who currently actively participate in management of our operations, could prevent key strategic decisions from being made in a timely manner. In the event these shareholders are unable to continue to work well together with other minority shareholders and with other management, our business could be harmed.

Corporate governance regimes in the UK and Guernsey do not apply to us, and corporate governance standards in the Russian Federation are not of the same standard as those in Western Europe and the United States.

The “Guidance on Corporate Governance in the Finance Sector in Guernsey” issued by the Guernsey Financial Services Commission dated 10 December 2004 does not apply to us, the “Code of Practice — Company Directors” issued by the Guernsey Financial Services Commission dated 3 June 2009 does not apply to our directors, and we are not required to comply with the UK Corporate Governance Code. Accordingly, there are fewer protections for investors than would otherwise be the case were we to comply with the UK Corporate Governance Code principles on corporate governance or similar standards of other European Union member states or the United States. Similarly, although we believe that our subsidiaries incorporated in the Russian Federation, Guernsey and Cyprus comply with the corporate governance standards of the Russian Federation, Guernsey and Cyprus, as applicable to the relevant subsidiary, such corporate governance standards are not of the same standard as those in Western Europe and the United States, which may provide us, as equity holder in such entities, and, indirectly, our shareholders, with less protection than would be provided by corporate governance requirements that apply in Western Europe or the United States. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders’ rights. And, despite recent amendments to the Federal Law No. 208-FZ “On Joint Stock Companies” (the “**Joint Stock Companies Law**”), minority shareholders possess only a limited ability under Russian law to protect their rights against majority shareholders.

In addition, as with other areas of Russian law, Russian corporate law concepts are at times subject to inconsistent interpretation and application by the courts. See “— *Risks Related to the Legal and Regulatory Environment in Russia — Weaknesses in Russia’s legal system, legislation and regulations create an uncertain environment for business and investment activity in Russia*”. For example, there are conflicting interpretations as to when shareholder approval of a transaction is required as a “major transaction” or, alternatively, when the transaction may be validly authorised by a decision of the company’s appointed officers. Accordingly, the Group may be subject to an increased burden in seeking to comply with all reasonably possible interpretations of such requirements or may find itself in formal non-compliance with such requirements. The uncertainties mentioned above may have a material adverse effect on the Group’s business, financial condition, results of operation, prospects and the value of the GDRs.

Russian law may expose us to liability for actions taken by our Russian subsidiaries.

We have a number of Russian subsidiaries. Under Russian law, we may be jointly and severally liable for any obligations of a subsidiary under a transaction if we are able to give compulsory instructions to that subsidiary and the liability arises pursuant to actions taken in accordance with our mandatory instructions. We may also have secondary liability for any obligations of a subsidiary, which becomes insolvent or bankrupt due to our faulty actions or failure to act. In either of these circumstances, the shareholders of the subsidiary may seek compensation from us for the losses sustained by the subsidiary or if we knew that the action taken pursuant to its instructions or the failure to act would result in losses. This type of compensation could result in significant liabilities for us and could adversely affect our business.

We have engaged in transactions with related parties that may present conflicts of interest; the terms of such transactions may be less favourable to us than terms that could be obtained in arm's-length transactions.

We have engaged in transactions with related parties. For example, we have engaged in transactions with our founding shareholders, directors and executive officers and companies controlled by them, including purchases and sales of equity interests and loan arrangements. Conflicts of interest may have arisen between our affiliates and us, potentially resulting in less favourable terms of such transactions than the terms that could have been determined by market forces. Such agreements entered into by us with our founding shareholders or with companies affiliated with our founding shareholders may also result in tensions among our controlling shareholders. The occurrence of any of the above could adversely affect our business, financial condition and results of operations.

See “*Related Party Transactions*” for a comprehensive description of our material related party transactions.

In the event that the minority shareholders of our subsidiaries were to challenge successfully past or future interested party transactions or other transactions or were not to approve interested-party transactions or other transactions in the future, we could be limited in our operational flexibility and our results of operations could be materially adversely affected.

We own less than 100% of the shares in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. Some of our subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other subsidiaries and affiliates. Russian law requires a joint stock company that enters into transactions with certain related persons, referred to as “interested party transactions”, to comply with special approval procedures. Under Russian law an interested party transaction is a transaction with an “interested party”, which is (i) a member of the board of directors (supervisory council) or the management board of a company, (ii) the CEO of the company, or the external manager or management company, (iii) any shareholder that, together with its affiliates, owns at least 20% of the company’s voting shares or (iv) a person that is entitled to give mandatory instructions to the company, if any of the foregoing persons, or any of these persons’ spouses, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively at least 20% of the shares in a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds office in any management body of a company (or in any management body of the managing company of such company) that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- is otherwise deemed an “interested party” under the company’s charter.

Under applicable Russian law, in a joint stock company with 1,000 shareholders or less with a right to vote, interested party transactions must be approved by a majority vote of disinterested directors of the company, or by a majority vote of disinterested shareholders of the company in the event that (i) the number of the disinterested directors of the company is not sufficient to constitute a quorum, (ii) the value of the transaction is equal to or exceeds 2% of the company’s assets as determined under Russian accounting standards as of the latest reporting date, or (iii) in case of certain share placements. If valid approval of the interested party transaction is not obtained, the transaction may be invalidated by a Russian court upon a motion by the company or any of its shareholders.

For example, we have one key subsidiary, SSMO LenSpetsSMU, in which Valentina Chulgaeva, the Head of Economics and Planning Department of Management Company Etalon, holds 1.5% of its share capital. We would require obtaining her approval of interested party transactions as disinterested shareholder, if such shareholder’s approval is necessary according to Russian law. Failure to obtain her or her successors as shareholders’ approvals for interested party transactions when required to do so could adversely affect our business, financial condition and results of operations.

Moreover, the provisions of the Russian law that define which transactions must be approved as “interested party” transactions are subject to different interpretations, and we cannot be certain that our and our subsidiaries’ application of these concepts will not be subject to challenge by former and current shareholders. See “— *We have engaged in transactions that could be challenged on the basis of non-compliance with applicable legal requirements, and any successful challenge could result in the invalidation of such transactions, loss of property, the imposition of other liabilities, fines, penalties or other sanctions or liquidation of members of our group that engaged in such transactions.*”

Russian legal entities may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its technical non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity, or non-compliance by a Russian legal entity with provisions of Russian law, have been used by Russian courts as a basis for liquidation of that legal entity. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that a company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of a company or its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation which held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and that consideration should be given to whether the liquidation would be an adequate sanction for such violations.

In accordance with Russian legislation, if the net assets of a Russian limited liability company (determined in accordance with the Russian Accounting Standards) fall below its charter capital at the end of its second or any subsequent financial year, the company is required to decrease its charter capital to match the net assets. Such company is also obligated to notify its creditors about the decrease of the share capital and publish information about such decrease in the press. The creditors of the company have the right to accelerate their claims and require the company to perform its obligations early and pay damages. In addition, if the net assets of a Russian limited liability company at the end of its second or any subsequent financial year fall below the statutory minimum share capital, the company must voluntarily liquidate. If a company fails to comply with either of the requirements stated above within the required period of time after the end of the relevant financial year, the company's creditors may accelerate their claims and require the company to perform its obligations early and pay damages, and governmental authorities may seek the involuntary liquidation of the company. A court may refuse to satisfy a creditor's claim if the company establishes that: (i) a decrease in the net assets does not violate the creditor's rights; or (ii) the obligation is adequately secured.

The net assets of our subsidiaries Daikar and Rassvet were below the statutory minimum charter capital as at 31 December 2008, 2009 and 2010, as were the net assets of our subsidiary UM Etalon as at 31 December 2009 and 2010. We are currently taking steps to remedy this. If an involuntary liquidation or claims for early repayment of obligations were to occur, they could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected if our ownership structure is challenged or indebtedness of our subsidiaries is accelerated based on certain formal requirements of Russian corporate legislation.

From time to time, we may merge certain subsidiaries for operational reasons. Under Russian law, such mergers would be considered a "reorganisation", and the merged subsidiaries would be required to notify their creditors of this reorganisation. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate the merged subsidiaries' indebtedness and demand compensation for all related losses. In the event that we decide to undertake any such merger and all or part of certain of our subsidiaries' indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment, and our business, financial condition and results of operations could be materially adversely affected.

We have engaged in transactions that could be challenged on the basis of non-compliance with applicable legal requirements, and any successful challenge could result in the invalidation of such transactions, loss of property, the imposition of other liabilities, fines, penalties or other sanctions or liquidation of members of our group that engaged in such transactions.

Some of our subsidiaries, or their predecessors in interest, have taken a variety of actions relating to, among other things, valuation or acquisition of property and construction permits, share issuances, share disposals and acquisitions, interested-party transactions, major transactions and other corporate matters. Under Russian law, transactions may be invalidated on many grounds, including for example a sale of shares by a person without the right to dispose of such shares, breach of interested party transaction and/or major transaction rules or failure to register the share transfer in the securities register. Defects in earlier transactions may cause our interest arising from such transactions to be subject to challenge. If any transactions were successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties to such transactions, shareholders of the relevant group members or their predecessors in interest or any other interested party, it could result in the invalidation of such transactions, loss of property (including shares in our subsidiaries) or

the imposition of other liabilities, which would materially adversely affect our business, financial condition and results of operations. Although no actions seeking to invalidate our subsidiaries' corporate status, alleging non-compliance with applicable laws and regulations relating to the formation of our subsidiaries or challenging subsequent share transfers in our subsidiaries have been brought, there can be no assurance that such actions may not be brought in the future.

Technical deficiencies in legal contracts that document certain of our projects may result in the recognition of such contracts as not having been concluded, which may consequently have an adverse effect on our operations.

Certain contracts entered into by us or our subsidiaries may not fully comply with certain express provisions of current legislation. For example, some contracts concluded by our subsidiaries may not contain price and other material terms. Such contracts may technically be challenged as not having been concluded due to the failure to state such material terms. If successfully challenged, these contracts will have no legal force and effect for commercial, accounting and tax purposes, which may have an adverse effect on our operations and disrupt our business.

We may be subject to liability for back taxes and related interest and penalties.

We have in the past engaged in certain transactions that might be challenged by the Russian tax authorities as having the additional benefit of lowering our tax obligations. On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 formulating the concept of "unjustified tax benefit", which is described in the ruling by reference to specific circumstances, such as an absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterisation of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Ruling might have been to combat abuse of tax laws, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court.

We have purchased certain companies and material real estate from third party sellers in complex transactions that may be considered by tax authorities to have been structured by the sellers to maximise their tax efficiency. Also, we have made use of certain financial arrangements that could be challenged by tax authorities on similar grounds. The relevant authorities may attempt to challenge these transactions or financial arrangements with the third parties and bring charges against us for engaging in such activity. This may result in the imposition of liabilities, including fines or penalties, on members of our group and criminal prosecution of our officers, which could have a material adverse effect on our business, financial condition, results of operations or prospects. Russian tax authorities may scrutinise a chain of sales transactions that involve different purchase prices being paid for the same shares or assets in the chain of transactions. The tax authorities may attempt to assess additional taxes, interest and penalties to the parties in the chain of transactions who, in the opinion of the tax authorities, have been underpaid and as a result have reduced their tax obligations if they decide such counterparty has been aiding and abetting the underpayment of taxes.

If the Russian tax authorities successfully challenge these transactions, this may result in our being liable for additional taxes, interest and penalties. Any attempt by Russian authorities to pursue an action against us or our management or to assess any tax liabilities, including any fines, penalties, criminal prosecution or other sanctions for any back taxes that may have been payable could have a material adverse effect on our reputation, business, prospects, financial condition or results of operations.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We maintain insurance against some, but not all, potential risks and losses affecting our operations, and we cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also cannot assure you that insurance will continue to be available to us on commercially reasonable terms.

At present, we have no coverage for business interruption, third party liability in respect of property or environmental damage arising from accidents on our property or relating to our operations (except for liability insurance relating to the use of dangerous industrial sites, as required under Russian law), or for loss of key management personnel. If a major event were to affect one of our main production facilities, we could experience

substantial property loss and significant disruptions in our production capacity or development activities, for which we may not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third party claim for damages may have a material adverse effect on our business, financial condition and results of operations.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the Russian regions where we operate may have a material adverse effect on our results of operations, and we may be subject to environmental liabilities in connection with certain properties owned and/or leased by us.

Construction and development companies in Russia, including us, are subject to various federal, regional and local environmental laws, ordinances and regulations which establish (i) requirements for obtaining specific permits and administrative approvals, (ii) certain restrictions and encumbrances on the properties held and/or developed, and (iii) liabilities for violations of environmental legislation, as well as for damage caused to the environment, including site contamination.

In connection with our development projects, we are required to obtain numerous permits and approvals from various environmental protection authorities, including an assessment of the environmental impact of the project by the government's environmental experts. These requirements may hinder, delay or increase the costs of our projects.

Furthermore, environmental laws and regulations impose certain restrictions and encumbrances on the properties that we hold and/or develop. For example, some of our land plots under development are located in areas that have special environmental protection, such as prohibitions against cutting down trees, rules regulating the storage of construction waste and, in certain circumstances, the outright prohibition of any construction activities on certain parts of the land plot (e.g., territories bordering a waterline). In addition, the development of a project may be subject to certain obligations, including, among other things, planting of greenery and clean-up measures. These requirements may be costly and time consuming and may result in delays in the commencement or continuation of development of our projects. See also “— *We are subject to numerous development, construction and investment risks inherent to real estate development*” and “— *Our projects may be subject to delay, non-completion and financial loss.*”

We believe that our current legal and regulatory compliance programmes adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, if our compliance with current and future environmental laws and regulations is challenged or we are deemed to have violated these requirements, remedying these violations could require material expenditures by us, which could materially adversely affect our business, financial condition and results of operations.

In addition, we may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a property owned or leased by us. In addition to these costs, which may be substantial, our ability to sell or lease the contaminated property or to borrow using such property as security may be substantially hindered. According to Russian law, we may be obligated to pay a government entity or third party for property damage and for the investigation and clean-up costs incurred by such parties in connection with the contamination. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. We generally commission environmental assessments of properties that we acquire in order to identify and minimise potential environmental liabilities. However, such assessments may not reveal all environmental liabilities at, or potentially affecting, these properties.

Any of these requirements, restrictions or liabilities could materially adversely affect our business, financial condition and results of operations.

Our operations are subject to various risks and hazards associated with the nature of our production facilities and equipment.

We use certain hazardous equipment and materials, such as tower cranes, trucks, concrete and reinforced concrete. While we maintain insurance policies that cover potential accidents at dangerous industrial sites, as required under Russian law, there can be no guarantee that we will have appropriate insurance to cover any potential claims, if at all. See “— *We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.*” Moreover, we may also experience material shutdowns or periods of reduced production because of accidents, labour disputes and equipment failure, among other things, as well as monetary

losses and possible legal claims arising from such incidents, any of which could adversely affect our business, financial condition or results of operations.

RISKS RELATED TO THE POLITICAL AND SOCIAL ENVIRONMENT IN RUSSIA

Political instability or changes in government or in economic policy could adversely affect our business and the value of investments in the GDRs.

Political conditions in Russia were highly volatile in the 1990s, as the national government sought to manage the difficult transition from a planned to a market economy and surrendered authority to the regions, but the political situation has stabilised since 2000. While the current government has generally continued recent policies, significant changes in the economic and political environment could still occur. Furthermore, as a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups. Political instability or shifts in governmental policy and regulation in Russia could negatively affect the Russian economic and political environment in the near term, and accordingly have a material adverse effect on our business and the value of investments in the GDRs.

Unlawful, selective or arbitrary government action may have an adverse effect on our business and financial condition.

Russian regulatory authorities have a high degree of discretion and at times appear to exercise their discretion selectively, without hearing or prior notice. Selective governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Finally, the possibility of unlawful, selective or arbitrary government action also enhances opportunities for official corruption, which is widely reported to be very high in Russia.

The use of governmental power against particular companies or persons, for example through tax, environmental or prosecutorial authorities, could adversely affect Russia's economic climate and, if directed against us, our executive officers or shareholders, could have a material adverse effect on our business, results of operations and financial condition. Russian authorities have recently challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, the results of such prosecutions and challenges have been significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. Some observers have speculated that in certain cases these challenges and prosecutions were intended to punish, and deter, opposition to the government or the pursuit of disfavoured political or economic agendas.

The involvement of the Russian Federation in any future economic or military conflicts could adversely affect our business and the value of investments in the GDRs.

Over the last several years, Russia has been involved in conflicts, both economic and military, with other countries, including former members of the Soviet Union. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. For example, a military conflict in August 2008 between Russia and Georgia has resulted in the deterioration of Russia's relations with certain other countries. The Russian stock exchanges experienced heightened volatility and significant overall price declines following these events. The emergence of new or escalated tensions between Russia and other countries, including any escalation of such conflicts, or the imposition of economic or other sanctions in response to the tensions, could negatively affect economies in the region, including the Russian economy. In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict and terrorist attacks. For example, the conflict in Chechnya brought normal economic activity within Chechnya to a halt for a period of time and also had a negative effect on the economic and political situation in neighbouring regions. Violence and attacks relating to the conflicts in the North Caucasus region also spread to other parts of Russia and resulted in terrorist attacks in Moscow and in various other places in Russia. For example, on 24 January 2011, a terrorist attack resulted in numerous casualties when a bomb exploded at one of the Moscow's busiest international airport. In the future, such tensions, military conflicts or terrorist activities could have significant economic and political consequences in the Russian Federation, and accordingly have a negative adverse effect on our business and the value of investments in the GDRs.

Conflicts between Russian federal and regional authorities could create an uncertain operating environment for us.

Russia is a federation of 83 sub-federal units comprising republics, territories, regions, autonomous districts, cities of federal importance and an autonomous region. The delineation of authority among Russia's constituent entities as well as among the branches of government is often uncertain and at times contested. The Russian political system is therefore vulnerable to tension and conflict between federal, regional and local authorities over various issues, including tax revenues, authority for regulatory matters and regional autonomy. In addition, lack of consensus often results in the enactment of conflicting regulations at various levels, and may result in political instability. This lack of consensus creates uncertainties in the operating environment in Russia, which may prevent us from carrying out our business strategy effectively and efficiently.

Organised crime, corruption and social instability may adversely affect our business and the value of investments in the GDRs.

Crime and corruption could disrupt the Group's ability to conduct business and could adversely affect our financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and official corruption in Russia and other countries of the former Soviet Union, including the bribery of officials. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Our ability to conduct our business, as well as our financial condition and results of operations, could be adversely affected by illegal activities and corruption or by claims alleging involvement in illegal activities. The implementation of Russia's economic reforms has also led from time to time to social protest.

Social instability in Russia, coupled with difficult economic conditions, the failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, nationalisation, appropriation without fair compensation and increased violence. Any of these could restrict our operations, lead to the loss of revenues and materially adversely affect the value of investments in the GDRs.

RISKS RELATED TO THE ECONOMIC SITUATION IN RUSSIA

Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crisis or financial turmoil in other emerging markets could have an adverse effect on our business or cause the value of investments in the GDRs to suffer.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Emerging markets such as Russia are subject to rapid change, and information may become outdated relatively quickly. Moreover, global financial or economic crisis or financial turmoil in any large emerging market country tends to adversely affect prices in stock markets and prices for debt securities of most or all emerging market countries, as investors move their money to more stable, developed markets. As a consequence, during such times, emerging market companies can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the fundamentals of the Russian economy remain relatively sound, financial turmoil in any emerging market country could seriously disrupt it, adversely affecting our business and the value of investments in the GDRs.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, increase the cost of borrowing for the Russian Government and companies and adversely affect the Russian economy. The markets in Russia have been highly volatile during the recent economic downturn. These developments could severely limit our access to capital and could adversely affect our business, financial condition and results of operations.

Economic instability in Russia could have an adversely effect on our business.

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp

increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events.

From 2000 through the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the Rouble, a reduction in inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government achieved budget surpluses and accumulated a sizeable “stabilisation fund,” providing a certain degree of economic soundness. The Russian economy has been adversely affected, however, by the recent economic downturn and led to extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. The impact of the economic downturn on the Russian economy led to, among other things, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the U.S. dollar and Euro and the rise of unemployment. There can be no assurance that the measures adopted by the Russian government to ameliorate the effect of the economic downturn will result in a sustained recovery of the Russian economy. Moreover, any future deterioration of the international economic situation may lead to a worsening of the economic situation in Russia, and, as a result, is likely to adversely affect the profitability of our business.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in world commodity prices, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008, only to recover approximately 117% in the second half of 2009. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

In July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer of drought and record high temperatures, have resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia’s largest import demand for over ten years. The costs associated with controlling and reducing the fires, containing environmental concerns and repairing the damage caused by the fires may have an adverse impact on the Russian economy.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for the various products rendered by us, and therefore could have a material adverse effect on our business, results of operations and financial condition.

We are only able to conduct banking transactions with a limited number of creditworthy Russian banks, as the Russian banking system remains underdeveloped.

Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations, or a more stringent approach to enforcement, could lead to determinations of inadequate capital and the insolvency of some banks.

The recent economic downturn has led to the collapse or bailout of some Russian banks and to significant liquidity constraints for others. Profitability levels of most Russian banks have been adversely affected. Indeed, the economic downturn has prompted the Government to inject substantial funds into the banking system and take other actions amid reports of difficulties among Russian banks and other financial institutions.

We have endeavoured to reduce our risk by receiving and holding funds in a number of Russian banks. The continuation or worsening of the economic downturn or the bankruptcy or insolvency of one or more of the banks in which we receive or hold our funds could prevent us from accessing our funds for several days or affect our ability to complete banking transactions in Russia, or may result in the loss of our deposits altogether, which could have a material adverse effect on our business, results of operations, financial condition, prospects and the value of investments in the GDRs. Russian companies face significant liquidity problems due to the limited supply of domestic savings, the scarcity of foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. An intensification of liquidity problems or a further deterioration in the Russian banking system could have a material adverse effect on our business, results of operations, financial condition, prospects and the value of investments in the GDRs.

Inflation could increase our costs.

The Russian economy has been characterised by high rates of inflation, including an annual inflation rate of 84.4% in 1998. According to Rosstat, the annual inflation rate in Russia was approximately 14.1% in 2008, 8.8% in 2009 and 6.9% in 2010, as measured by the consumer price index. Many of our costs, including for example, salaries, are sensitive to rises in the general price level in Russia. As a result, high rates of inflation could increase our costs, and there can be no assurance that we will be able to maintain or increase our margins commensurately in order to offset such increases.

Changes in currency exchange rates and currency swings could materially adversely affect our business, financial condition and results of operations.

Foreign currency markets have been marked by periods of high volatility and the Rouble has experienced sharp depreciation in the past. The Rouble has depreciated in real terms in recent years, and the Rouble has been depreciating against the U.S. dollar in the last two years, and there is no guarantee that the Rouble will not continue to depreciate in real terms or depreciate further against the U.S. dollar or other major currencies in the future. Changes in the value of the U.S. dollar against the Rouble can have a significant impact on our financial statements. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations-Quantitative and Qualitative Disclosures about Market Risk — Foreign Exchange Risk*” for further details.

There is a lack of reliable official data in Russia.

Official statistics and other data published by the CBR, federal, regional and local governments, and federal agencies are substantially less complete or transparent than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on the basis of methodologies different from those used in Western countries. Any discussion of matters relating to Russia herein may therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

We could experience disruptions in our normal business activities as a result of problems associated with Russia’s physical infrastructure.

Much of Russia’s physical infrastructure dates back to Soviet times and has not been adequately funded or maintained over the past decades. Particularly affected are the power generation and transmission, communication systems, building stock and rail, road and pipeline networks. Breakdowns and failures of any part of Russia’s physical infrastructure may disrupt normal business activity. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements.

The Russian Government is actively pursuing plans to reorganise the nation’s rail, electricity and telephone systems. These reorganisations may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia’s physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, all of which could have a material adverse effect on our business, results of operations, financial condition, prospects and the value of investments in the GDRs.

RISKS RELATED TO THE LEGAL AND REGULATORY ENVIRONMENT IN RUSSIA

Weaknesses in Russia’s legal system, legislation and regulations create an uncertain environment for business and investment activity in Russia.

Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on our business.

Risks associated with the Russian legal system include, to varying degrees, the following:

- inconsistencies among: (i) federal laws; (ii) decrees, orders and regulations issued by the President, the government and federal ministers; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting the laws as well as a lack of sufficient commentaries on judicial rulings and legislation;
- the relative unavailability of Russian legislation and court decisions in an organised manner that facilitates understanding of such legislation and court decisions;

- the relative inexperience of lawyers, judges and courts in interpreting newly-adopted legislation and complex commercial arrangements;
- substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic, time-consuming and unpredictable enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary government action; and
- bankruptcy procedures that are not well-developed and are subject to abuse.

These weaknesses could adversely affect our ability to carry out our business activities, enforce our rights under contracts or defend ourselves against claims by others. Furthermore, there can be no assurance that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees or regulations.

The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The independence of the judicial system remains largely untested. The court system in the Russian Federation is understaffed and under-funded and not immune to external influences. Judges and the courts in the Russian Federation are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgements can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. We may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience of the courts in the Russian Federation in enforcing these provisions and due to political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our entities, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the Group's business, results of operations, financial condition, and prospects.

Russia's unpredictable acknowledgement and enforcement of foreign court judgements or arbitral awards give rise to significant uncertainties.

Russia is not a party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgements, and federal law does not generally provide for the recognition and enforcement of foreign court judgements, although foreign court judgements are sometimes recognised and enforced by Russian courts on the basis of reciprocity, if courts of the country where the foreign judgement was rendered have previously enforced judgements issued by Russian courts. The existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgement is sought, and it is not possible to predict whether in the future a Russian court will recognise and enforce a judgement issued by a foreign court on the basis of reciprocity. Consequently, should a judgement be obtained from a foreign court, it may not be given direct effect in Russian courts. See "*Limitation on Enforcement of Civil Liabilities*".

However, Russia is a party to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards of 10 June 1958. A foreign arbitral award obtained in a jurisdiction that is a party to the New York Convention should be recognised and enforced by a Russian court, subject to the qualifications provided for in the New York Convention and compliance with Russian rules of civil procedure and applicable Russian law. There is also a risk that Russian rules of civil procedure will be amended to introduce further grounds preventing foreign court judgements and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other

officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgement or any foreign arbitral award in Russia.

Lack of developed corporate and securities laws and regulations in the Russian Federation may limit our ability to attract future investment.

The regulation and supervision of the securities markets, financial intermediaries and issuers are considerably less developed in the Russian Federation than in more developed countries. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted in Russia, whereas laws relating to anti-fraud safeguards, insider trading and fiduciary duties are rudimentary. In addition, the Russian securities markets are regulated by several different authorities, which are often in competition with each other. These include:

- the Russian Federal Service for the Financial Markets;
- the Ministry of Finance of the Russian Federation;
- the FAS;
- the CBR; and
- various professional self-regulatory organisations.

Rules and regulations of these various authorities are not always consistent with each other and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect the Company's ability to conduct securities-related transactions in Russia in the future.

Shareholder rights provisions under Russian law may impose additional costs on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the respective Group's company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- a reorganisation;
- the execution of a "major transaction" that involves property worth more than 50% of the book value of assets of the respective Group's company, calculated in accordance with Russian accounting standards; and
- the amendment of a company's charter or adoption of a new version thereof in a manner limiting shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of net assets of the respective Group's company, calculated according to the Russian accounting standards at the time the matter at issue is voted upon, could have an adverse effect on our cash flow and ability to service our indebtedness.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayer; therefore, we may be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations.

Generally, taxes payable by Russian companies are both substantial and numerous. These taxes include, among others, profit tax, value added tax, property tax and other taxes as well as contributions to social security funds (introduced since 1 January 2010 instead of unified social tax).

Although Russia's tax climate and the quality of tax laws have generally improved with the introduction of the Russian Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future. In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, are subject to review and audit by a number of authorities, each of which may impose penalties and interest charges. In some instances, new tax regulations have been given retroactive effect.

We believe that we have provided adequately for tax liabilities based on our interpretation of applicable Russian tax legislation, official pronouncements and court decisions. There can be no assurance, however, that the interpretations of the relevant tax authorities will not differ from our interpretation. For example, prior to the

amendments of the Cost Sharing Law becoming effective in June 2010, we made use of certain financial arrangements not expressly provided for in the Cost Sharing Law. In particular, our Group companies, acting as developers, attracted funds from potential purchasers of flats at various early stages of the construction process by entering into preliminary sale and purchase agreements with private individuals. Upon completion of the construction, the final sale of property was executed by entering into final sale and purchase agreements with such private individuals. We believe we paid taxes on these sales transactions in accordance with Russian tax legislation. However, based on the uncertainty of legislation and arbitration practice, the tax authorities may attempt to challenge these sales transactions and assess additional tax liabilities (including VAT), penalty and interest. Further, due to the uncertainty of the practical application of the law, the potential amount of such assessment cannot be readily estimated. If the Russian tax authorities successfully challenge the way we paid taxes on these sales transactions, this may result in our being liable for additional taxes, interest and penalties or other sanctions, which could have a material adverse effect on our reputation, business, prospects, financial condition or results of operations.

Our Russian subsidiaries are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities.

Our Russian subsidiaries are subject to periodic tax inspections that may result in tax assessments and additional amounts like penalties and interest being claimed from such subsidiaries for prior tax periods. Generally, tax declarations of our Russian subsidiaries remain open and subject to audit by tax and/or customs authorities for three calendar years immediately preceding the year in which the decision to conduct an audit is taken. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year limitation period by a superior tax authority.

Tax audits may result in additional costs to us if the relevant authorities conclude that we did not satisfy our tax obligations in any given year. They may also impose additional burdens on us by diverting the attention of our management. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse effect on our business, results of operations and financial condition.

Amendments to the first part of the Tax Code, effective 1 January 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed”, “hindered” or “created insurmountable obstacles” in respect of an inspection and may ultimately seek to review and possibly to apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review our compliance with applicable tax law beyond the three-year limitation period.

The inability to consolidate our Russian subsidiaries for tax purposes can lead to an additional tax burden.

Currently financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of the Company’s Russian subsidiaries pays and will likely continue paying its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Group, which may result in higher taxes for us than if taxes were assessed on a consolidated basis.

Inter-company dividends are subject to a withholding tax of 9%, if being distributed to Russian residents except for certain exemptions introduced by recent amendments to the Tax Code. With effect from January 2008, the dividend income of Russian entities is subject to tax at the rate of 0% provided that the recipient owns not less than 50% of the shares of the subsidiary paying the dividends entitling the recipient to at least 50% of the total amount of dividends for a period of not less than 365 calendar days from the date the dividends are declared. Starting from 1 January 2011 the requirement to have an ownership interest exceeding RUB 500 million in the dividend paying company was abolished and thus no longer applies to profits earned in 2010 and subsequent years.

Dividends paid by Russian companies to their foreign corporate shareholders (e.g. the Company) are taxable at the rate of 15% subject to double tax treaty relief.

Under the current business structure of the Group, the Russian companies are owned by a Cypriot company. According to the double tax treaty between Russia and Cyprus for the Avoidance of Double Taxation with Respect to Taxes on Income and on Capital of 5 December 1998, such structure allows the Group to apply a reduced Russian withholding tax rate of 5%. Although the Group will seek to claim treaty protection, there is a risk that the applicability of the reduced rates may be challenged by the Russian tax authorities. As a result, there can be no assurance that the Group will be able to avail itself of the reduced withholding income tax rate in practice. Specifically, the Group may incur the 15% withholding income tax at source on dividend payments from its Russian subsidiaries if the treaty clearance procedures are not duly performed at the date when the dividend payment is

made. In this case the Group may seek to claim as a refund the difference between the 15% tax withheld and the applicable reduced rate. However, there can be no assurance that such taxes would be refunded.

Starting from 2006 the Russian Ministry of Finance issued a number of clarifications with respect to the concept of “beneficial ownership” of income applied in international tax treaties. Although the clarifications through the date of the Prospectus have been of limited use, they demonstrate the attempt of the Russian tax authorities to investigate beneficial ownership of income in international financial transactions and holding structures.

Moreover, a draft law is under discussion in the Russian Government envisaging the introduction of the concept of an “actual recipient of income” to the Russian Tax Code. Although the draft law neither uses the term “beneficial owner” nor defines the term “actual recipient of income” (which is generally used in the Russian versions of double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the domestic tax legislation and to combat the abuse of double taxation treaties where the beneficiary of income resides in a jurisdiction which does not have a double taxation treaty with Russia. The draft law, if enacted as currently drafted, would add to the existing uncertainty and instability in the application of tax treaties in Russia, and may result in the inability for foreign entities of the Group to claim double taxation treaty benefits in Russia. It is currently uncertain if and when the discussed draft law will be enacted.

The uncertainty relating to Russian tax laws exposes us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden. In addition to our substantial tax burden, these conditions, risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could have a material adverse effect on our business, results of operations and financial condition.

Introduction of a concept of corporate tax residency based on a “management and control” test may increase our tax costs.

Russian tax legislation in effect does not contain a concept of corporate tax residency. Russian legal entities are taxed on their worldwide income whilst foreign legal entities are taxed in Russia on income attributable to their permanent establishment and on Russian source income, received by these foreign legal entities. The Russian government, in its “Major Trends in Tax Policy in the Russian Federation for 2008-2010”, has proposed the introduction to the domestic tax law of a new concept of tax residency for legal entities, which is more aligned with international tax concepts. According to the proposals, a non-Russian entity would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be given as to whether and when these amendments will be enacted, their exact nature, their interpretation by the tax authorities and their possible impact on us. We cannot rule out the risk that, as a result of the introduction of these changes to the Russian tax legislation, certain Group companies might be deemed to be Russian tax residents and be subject to Russian taxes, which could have a material adverse effect on our business, results of operations and financial condition.

The Russian thin capitalisation rules allow different interpretations which may affect the Company’s business and the value of the GDRs.

Russian subsidiaries of the Company may be affected by the thin capitalisation rules in Russia if at any time they receive loans from or have loans guaranteed by a foreign shareholder owning directly or indirectly over 20% of the shares in their charter capital or from Russian affiliated companies of such foreign shareholder, or even from any foreign party, where such loan is guaranteed by a Russian entity of the Group, which is affiliated with such foreign shareholder.

Where the thin capitalisation rules apply, the deductibility of interest will be restricted, and such interest may be treated as dividends for Russian tax purposes.

Russian transfer pricing legislation may lead to pricing adjustments and impose additional tax liabilities with respect to controlled transactions.

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities with respect to all “controlled” transactions, where the transaction price differs from the market price by more than 20%. “Controlled” transactions include domestic and international transactions between related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e., if the price of such transactions differs from the prices for similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives.

The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts. The imposition of additional tax liabilities under the Russian transfer pricing legislation could have a material adverse effect on our business, results of operations and financial condition.

In 2009 a number of draft amendments to the transfer pricing law have been announced which, if implemented, would considerably toughen the existing law and bring it more in line with international transfer pricing rules. However, it is still unclear if and when these amendments will be enacted and what exact effect these provisions may have. The proposed changes, *inter alia*, may shift the burden of proving market prices from the tax authorities to the taxpayer, cancel the existing permitted deviation threshold, place much greater emphasis on the substance of the parties to the controlled transactions and introduce specific documentation requirements for proving market prices. The proposed transfer pricing rules have been approved by the Russian State Duma in the first reading on 19 February 2010; however, later the draft law was suspended for the uncertain period. Should the amendments under discussion take effect, they may have a considerable impact on the Group's tax position.

RISKS RELATING TO THE IPO AND GDRs

The trading price of the GDRs may be highly volatile and an active and liquid market for the GDRs may not develop.

The global stock markets have experienced extreme price and volume fluctuations, especially since the beginning of the recent economic downturn. In addition, before the Offering, there has been no public trading market for the GDRs. Although it is expected that the GDRs will be admitted to trading on the LSE, an active, liquid trading market may not develop or be sustained after this offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Consequently, the trading prices of the GDRs may be subject to wide fluctuations in response to a number of factors, including:

- variations in our operating results and those of other Russian businesses;
- variations in national and industry growth rates;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

Moreover, the market price of the GDRs may decline below the offer price per GDR, which will be determined based on the results of the bookbuilding exercise conducted by the Underwriters. The Offer Price has been determined by negotiation between the Company, the Selling Shareholders and the Underwriters and may not be indicative of the price at which the GDRs will trade following completion of the Offering. After the Offering, the GDRs could be subject to significant fluctuation and investors may not be able to resell the GDRs at or above the Offer Price.

Furthermore, future sales of the GDRs may affect the market price of the GDRs. Sales, or the possibility of sales, of substantial numbers of the GDRs in the public markets following the Offering could have an adverse effect on the trading prices of the GDRs and could affect our ability to obtain further capital through an offering of equity securities. We and the Selling Shareholders have undertaken not to, among other things, issue, offer, sell, contract to sell, grant options over or otherwise dispose of, directly or indirectly, any Ordinary Shares or GDRs for a period of 180 days from the Closing Date without the prior consent of the Underwriters, subject to certain exceptions. See "*Subscription and Sale — Lock-up Arrangements*" for further details. Sales of such securities by any of these persons following the end of this period or the waiver of these restrictions could have an adverse effect on the trading prices of the GDRs. Further, subsequent equity offerings may reduce the percentage ownership of our existing shareholders.

Investors in the Offering will suffer immediate and substantial dilution in combined net asset value per Ordinary Share.

The price at which the Ordinary Shares (in the form of GDRs) are being offered in the Offering is substantially higher than the Group's combined net asset value per Ordinary Share. Therefore, purchasers of the Ordinary Shares (in the form of GDRs) in the Offering will incur immediate and substantial dilution in combined net asset value per Ordinary Share.

The Ordinary Shares underlying the GDRs are not listed and may be illiquid.

Unlike many other global depositary receipts offerings traded on the London Stock Exchange, the Ordinary Shares are neither listed nor traded on any stock exchange and we do not intend to apply for the listing or admission to trading of the Ordinary Shares on any stock exchange. As a result, a withdrawal of Ordinary Shares by a holder of GDRs will result in that holder obtaining securities that may be significantly less liquid than the GDRs and any price obtained for those Ordinary Shares may be discounted as a result of such withdrawal.

The Ordinary Shares underlying the GDRs lack pre-emption rights.

There are no provisions of Guernsey law that confer rights of pre-emption in respect of the issue of additional Ordinary Shares by the Company, nor have pre-emption rights been incorporated into our articles of incorporation. If the Company were to issue additional Ordinary Shares, such issue could be on a non pre-emptive basis and any such issue may dilute the shareholdings of existing shareholders.

Voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and subject to relevant requirements of Guernsey law and the Company's articles of incorporation.

GDR holders will have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Ordinary Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs, the terms and conditions of the GDRs and relevant requirements of Guernsey law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, under Guernsey law and the Company's articles of incorporation, the Company must notify holders of the Ordinary Shares not less than ten days prior to the date of any general meeting. Holders of the Ordinary Shares, therefore, will receive notice directly from the Company and will be able to exercise their voting rights by either attending the meeting in person, voting by proxy or, in the event the Company opts to seek approval by written resolution instead of by vote of general meeting, by executing a written resolution. GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will provide the notice to the Depositary as registered holder of the Ordinary Shares. The Depositary has undertaken, in turn, as soon as practicable thereafter, to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Ordinary Shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive voting instructions in time will not be voted. See "*Terms and Conditions of The Global Depositary Receipts — Voting Rights*" for a description of the voting rights of holders of GDRs.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the Ordinary Shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of general meetings or request that a general meeting be called or (3) nominate candidates for the Company's Board of Directors. If GDR holders wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the Ordinary Shares and thus become the owners of the Ordinary Shares on the Company's share register.

We may decide not to pay dividends in the future and our ability to pay dividends will depend upon the level of dividends and distributions, if any, received from our operating subsidiaries and other factors.

The Company may be unable or elect not to declare dividends in the future. The payment of dividends, if any, by the Company will depend on, among other things, our future profits, financial position and capital requirements, the sufficiency of our distributable reserves, the ability of subsidiaries to pay dividends or distributions to the Company, credit terms, general economic conditions and other factors that our directors deem to be important from time to time. Should the Company decide against declaring dividends in the future, the trading price of the GDRs may be adversely affected.

Investors may have limited recourse against the Selling Shareholders, the Company or the Company's directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of the Company's current directors and executive officers reside outside the United States and the United Kingdom.

The presence of the Company and the Selling Shareholders outside the United States and the United Kingdom may limit the legal recourse of investors against them. The Company is organised under the laws of Guernsey and the Selling Shareholders are incorporated outside the United States and the United Kingdom. Most of the Company's current directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of the Company's and the Selling Shareholders assets and the assets of the Company's current directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon the Company or its directors and executive officers or the Selling Shareholders or to enforce U.S. or U.K. court judgements obtained against the Company or its directors and executive officers or the Selling Shareholders in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs. See "*— Russia's unpredictable acknowledgement and enforcement of foreign court judgements or arbitral awards give rise to significant uncertainties*".

THE OFFERING

The Company	Etalon Group Limited, a company incorporated under the laws of Guernsey, with its registered office at Ogier House, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 1WA.
The Selling Shareholders	The Selling Shareholders listed under " <i>Principal and Selling Shareholders</i> ".
The Offering	The Offering comprises an offering of 82,142,857 Ordinary Shares in the form of GDRs (excluding the Over-allotment Option referred to below). The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain institutional investors in offshore transactions in reliance on Regulation S.
Offer Price	The offer price is USD 7.00 per GDR.
Share Capital	<p>Prior to the Offering, our share capital consisted of 223,529,400 Ordinary Shares, each par value of 0.00005 GBP, which are fully paid and issued. Following the Offering, our share capital will consist of 294,957,971 issued and outstanding Ordinary Shares.</p> <p>Our Ordinary Shares are subject to applicable provisions of Guernsey company law and our memorandum and articles of incorporation and have the rights described under "<i>Description of Share Capital and Certain Requirements of Guernsey Law</i>".</p>
Over-allotment Option	Strata Investments Limited has granted to the Stabilising Manager, on behalf of the Underwriters, an Over-allotment Option to acquire up to an additional 12,321,428 GDRs at the Offer Price for the purposes of covering over-allotments, if any, made in connection with the Offering and to cover any short position resulting from stabilisation transactions. The Over-allotment Option is exercisable on behalf of the Underwriters at any time during the Stabilisation Period. If the Stabilising Manager on behalf of the Underwriters exercises this option, Strata Investments Limited will be obligated to sell, and each Underwriter will be severally obligated, subject to the conditions contained in the underwriting agreement among the Company, the Selling Shareholders and the Underwriters, to procure purchasers for or purchase a number of additional Ordinary Shares in the form of GDRs proportionate to that Underwriter's initial underwriting commitment.
The GDRs	<p>One GDR will represent one Ordinary Share on deposit with the Custodian for the Depositary. The GDRs will be issued pursuant to the Deposit Agreement between the Company and the Depositary. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the Deposit Agreement. Pursuant to the Deposit Agreement, the Ordinary Shares represented by the GDRs will be held by the Custodian, for the account of the Depositary, which, in turn, holds for the benefit of the holders of GDRs.</p> <p>The Depositary may deduct per-GDR fees and other fees and expenses from dividend distributions and may otherwise assess other per-GDR fees and other fees and expenses to the GDR holders. See "<i>Terms and Conditions of The Global Depositary Receipts — Depositary's Fees, Costs and Expenses</i>".</p> <p>Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the</p>

terms of the Deposit Agreement, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See “*Terms and Conditions of The Global Depositary Receipts*” and “*Settlement and Delivery — Global Clearance and Settlement Procedures — Trading between DTC Seller and Euroclear/Clearstream Purchaser*” and “*Trading between Clearstream/Euroclear Seller and DTC Purchaser*”.

Closing Date

Expected to be on or about 20 April 2011.

Use of Proceeds

The Company intends to use approximately 70% of its share of the net proceeds of the Offering to finance the acquisition of new land plots. The Company intends to use the remaining 30% of its share of the net proceeds for general corporate purposes, including the construction costs of new and existing projects. See “*Use of Proceeds*”.

Depositary

The Bank of New York Mellon.

Lock-up

The Company and the Selling Shareholders have undertaken not to, among other things, issue, offer, sell, contract to sell, grant options over or otherwise dispose of, directly or indirectly, any Ordinary Shares or GDRs for a period of 180 days from the Closing Date without the prior consent of the Underwriters, subject to certain exceptions. See “*Subscription and Sale — Lock-up Arrangements*”.

Voting

Under the Deposit Agreement, one GDR carries the right to vote one Ordinary Share, subject to the provisions of the Deposit Agreement and applicable Guernsey law.

The Depositary will endeavour to exercise, on behalf of holders of GDRs, at any meeting of holders of the Ordinary Shares of which the Depositary receives timely notice, the voting rights relating to the Ordinary Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. We will notify the Depositary of any resolution to be proposed at any general meeting. The Deposit Agreement does not allow for the voting of fractional entitlements. Since each Ordinary Share is represented by one GDR, each holder of GDRs will need to hold one GDR to be entitled to direct the exercise of one vote. See “*Terms and Conditions of The Global Depositary Receipts — Voting Rights*”.

Taxation

For a discussion of certain U.S., U.K. and Guernsey tax consequences of purchasing and holding the GDRs, see “*Taxation*”.

Transfer Restrictions

The GDRs will be subject to certain restrictions on transfer as described under “*Terms and Conditions of The Global Depositary Receipts — Transfer Restrictions*” and “*Selling and Transfer Restrictions*”.

Listing and Trading

Application has been made to (i) the FSA for a listing of up to 294,957,971 GDRs, consisting of 82,142,857 GDRs to be issued on the Closing Date, up to 12,321,428 additional GDRs pursuant to the Over-allotment Option and up to 200,493,686 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated main market for listed securities. Conditional trading in the GDRs through the IOB is expected to commence on an if-and-when issued basis on or about 15 April 2011. Closing and settlement are expected to take place on or about 20 April 2011, and admission to the Official List of the UK Listing Authority and to unconditional trading through the IOB is

expected to take place on 20 April 2011. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

An additional 200,493,686 Ordinary Shares may be deposited, subject to the provisions set forth under “*Terms and Conditions of The Global Depositary Receipts*” and in the Deposit Agreement, with the Custodian against which the Depositary shall issue GDRs representing such shares up to the maximum aggregate number of 200,493,686 GDRs permitted under the UK Listing Authority block listing application.

Settlement Procedures

Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Depositary has applied to DTC to have the Rule 144A GDRs accepted for clearance through DTC and to have the Regulation S GDR accepted for clearance through the systems of Euroclear and Clearstream. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR Certificates only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “*Settlement and Delivery — Global Clearance and Settlement Procedures*”.

General Information

It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP: 29760G 103 ISIN: US29760G1031 Common Code: 053579302 SEDOL: B5TWX80
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Rule 144A GDRs:	CUSIP: 29760G 202 ISIN: US29760G2021 Common Code: 061455477 SEDOL: B5MV1V3
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London Stock Exchange GDR trading symbol:	ETLN
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Risk Factors

Prospective investors should consider carefully certain risks discussed under “*Risk Factors*”.

USE OF PROCEEDS

The gross proceeds that the Company will receive from the Offering are expected to be USD 500 million. The net proceeds of the Offering by the Company are expected to be approximately USD 483 million after deducting from the gross proceeds the aggregate underwriting commissions and fees relating to the primary portion of the Offering and the Underwriters' total expenses, as described more fully in "*Subscription and Sale*", of USD 12.8 million, and the estimated other aggregate expenses of the Offering, which are expected to total approximately USD 4.2 million. All expenses of the Offering will be paid by the Company. In addition, at its sole discretion, the Company may pay a discretionary fee of up to USD 5.0 million.

The Company will not receive any proceeds from the sale of GDRs by the Selling Shareholders.

The Company intends to use approximately 70% of its share of the net proceeds of the Offering to finance the acquisition of new land plots. The Company intends to use the remaining 30% of its share of the net proceeds for general corporate purposes, including the construction costs of new and existing projects.

DIVIDEND POLICY

We did not declare or pay dividends in respect of the years ended 31 December 2008, 2009 and 2010.

We expect to reinvest a majority of our cash flow from operations into our existing business for the foreseeable future. The amount of dividend payments, if any, for any particular period will depend, among other things, on our financial position, results of operations, cash flows, future prospects and any statutory restrictions.

To the extent that dividends are declared and paid by us in the future, holders of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. For a further description, see “*Description of Share Capital and Certain Requirements of Guernsey Law — Dividends*”.

CAPITALISATION

The following sets forth our cash and cash equivalents, current liabilities and capitalisation as of 31 December 2010 on a historical basis, extracted without material adjustment from the Consolidated Financial Statements.

The following table should be read together with “*Selected Consolidated Financial Information*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our Consolidated Financial Statements and related notes.

	<u>As at 31 December 2010</u>
	mln RUB
Cash and cash equivalents ⁽¹⁾⁽²⁾	3,636
Current liabilities ⁽²⁾	16,897
Non-current liabilities ⁽²⁾	7,084
Equity	
Share capital ⁽³⁾	1
Share premium	1,951
Retained earnings	10,157
Non-controlling interest	459
Total equity	<u>12,568</u>
Total capitalisation ⁽⁴⁾	<u>19,652</u>

Notes:

(1) Does not reflect

- cash flows from investing and financing activities in relation to transactions subsequent to 31 December 2010; or
- the estimated net cash proceeds from the Offering of USD 483 million, which will be received by the Company. See “*Use of Proceeds*”.

(2) Does not reflect an increase in total current and non-current loans and borrowings of RUB 1,188 million, or 14.6%, from RUB 8,126 million as of 31 December 2010 to RUB 9,314 million as of 11 April 2011. The increase includes an additional tranche of loans in the amount of RUB 545 million under our credit line agreement with Alfabank dated 6 August 2010, which was drawn in February 2011. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Major Credit Agreements*”.

(3) Does not reflect a share split of each of our existing Ordinary Shares of GBP 0.01 sub-divided into 200 Ordinary Shares of GBP 0.00005 each, with effect from 20 March 2011. See “*Description of Share Capital and Certain Requirements of Guernsey Law — History of Share Capital — Share Split*”.

(4) Total capitalisation is the sum of non-current liabilities and total equity.

Except as discussed in the footnotes to the table above, there have not been any significant changes in capitalisation since 31 December 2010.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below has been extracted without material adjustment from our Consolidated Financial Statements included in this prospectus beginning on page F-2.

The selected consolidated financial information should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

Consolidated statement of comprehensive income data

	For the year ended 31 December		
	2008	2009	2010
	mln RUB	mln RUB	mln RUB
Revenue	14,269	20,193	20,316
Cost of sales	(9,161)	(11,023)	(11,078)
Gross profit	5,108	9,170	9,238
General and administrative expenses	(1,541)	(1,440)	(2,047)
Selling expenses	(451)	(131)	(589)
Other expenses, net	(149)	(196)	(177)
Results from operating activities	2,967	7,403	6,425
Finance income	174	225	284
Finance costs	(1,257)	(1,049)	(667)
Net finance costs	(1,083)	(824)	(383)
Share of profit of equity accounted investees (net of income tax)	4	2	—
Profit before income tax	1,888	6,581	6,042
Income tax expense	(715)	(1,434)	(1,355)
Profit for the year	1,173	5,147	4,687
Total comprehensive income for the year	1,173	5,147	4,687
Attributable to owners of the Company	776	4,936	4,628
Attributable to non-controlling interest	397	211	59

Consolidated statement of financial position data

	As of 31 December		
	2008	2009	2010
	mln RUB	mln RUB	mln RUB
Non-current assets	3,016	3,620	2,899
Current assets	34,984	34,061	33,650
Total assets	38,000	37,681	36,549
Total equity	2,942	8,051	12,568
Non-current liabilities	2,276	3,877	7,084
Current liabilities	32,782	25,753	16,897
Total equity and liabilities	38,000	37,681	36,549

Consolidated statement of cash flows data

	For the year ended 31 December		
	2008	2009	2010
	mln RUB	mln RUB	mln RUB
Net cash provided by (used in) operating activities	659	2,180	(1,184)
Net cash used in investing activities	(378)	(155)	(555)
Net cash (used in)/from financing activities	1,143	(1,021)	2,039
Net increase in cash and cash equivalents	1,424	1,004	300

	As of, and for the year ended 31 December		
	2008	2009	2010
Other financial data			
EBITDA (<i>mln RUB</i>) ⁽¹⁾	3,181	7,605	6,909
EBITDA margin (%) ⁽²⁾	22	38	34
Net debt (<i>mln RUB</i>) ⁽³⁾	4,358	2,428	4,213
Net debt to EBITDA ratio ⁽⁴⁾	1.4	0.3	0.6

(1) EBITDA for each period is defined as comprehensive income for the year before interest and related income/(expenses), income tax expense, depreciation and amortisation. We believe that the presentation of EBITDA and EBITDA margin enhances an investor's understanding of our financial performance. Our management uses EBITDA and EBITDA margin to assess our operating performance because it believes that EBITDA and EBITDA margin are important supplemental measures of our operating performance and because EBITDA is a measure incorporated into certain of our financial ratios in our loan instruments. In addition, our management believes that EBITDA and EBITDA margin are frequently used by securities analysts, investors and other interested parties in the evaluation of companies that operate in our industry. EBITDA and EBITDA margin are not presentations made in accordance with IFRS and our use of the terms EBITDA and EBITDA margin may vary from others in our industry due to differences in accounting policies or differences in the calculation methodology of EBITDA and EBITDA margin by others in our industry. For example, other market participants in our industry prepare their financial statements in accordance with Russian accounting policies instead of IFRS. EBITDA and EBITDA margin have limitations as analytical tools, and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. For example, EBITDA does not reflect the effect of financial income/ (expenses), income tax expense, depreciation and amortisation. EBITDA and EBITDA margin should not be considered as alternatives to net profit or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities or as measures of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

The following table presents a reconciliation of EBITDA to comprehensive income for the years indicated:

	For the year ended 31 December		
	2008	2009	2010
	mln RUB		
Comprehensive income for the year	1,173	5,147	4,687
Depreciation	191	208	286
Interest expense on loans and finance leases	258	759	602
Net foreign exchange loss	965	231	65
Interest income on bank deposits	(96)	(67)	(89)
Interest income on loans and receivables	(7)	(14)	(4)
Interest income on promissory notes	—	(12)	—
Gain on repurchase of CLNs	(71)	(126)	(9)
Income tax expense	715	1,434	1,355
Bank fees and commissions	53	45	16
Interest in cost of sales	—	—	—
EBITDA	<u>3,181</u>	<u>7,605</u>	<u>6,909</u>

(2) EBITDA margin represents EBITDA divided by revenue.

(3) Net debt is calculated as the sum of short-term and long-term loans less cash and cash equivalents and short-term investments in the form of short-term cash deposits. Net debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Our calculation of net debt may be different from the calculation used by other companies and therefore comparability may be limited. Although net debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe that net debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of net debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that we would, or could, use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements.

	For the year ended 31 December		
	2008	2009	2010
	mln RUB		
Long-term loans	1,867	2,572	6,702
Short-term loans	4,869	3,272	1,424
Cash and cash equivalents	2,378	3,416	3,636
Short-term investments (bank deposits)	—	—	277
Net debt	<u>4,358</u>	<u>2,428</u>	<u>4,213</u>

(4) Net debt to EBITDA is a ratio calculated by dividing net debt by EBITDA (each as defined above). We use this measure as the principal statistic for evaluating the impact of the total size of our net borrowings on our operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, the notes thereto and the other information included elsewhere in this prospectus. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-looking Statements."

OVERVIEW

We are one of Russia's largest and oldest residential real estate developers, with a leading position in the St. Petersburg Metropolitan Area and a growing presence in the Moscow Metropolitan Area. Our strong portfolio is focused on large-scale residential complexes, targeting the lower middle class and upper economy class price segments. With over 23 years of experience in real estate development and construction, we believe we have one of the longest track records in the Russian industry. Since our inception in 1987, we have successfully completed a total gross buildable area of approximately 2.7 million square metres with approximately 0.4 million square metres, 0.3 million square metres and 0.2 million square metres delivered in 2008, 2009 and 2010, respectively.

For the years ended 31 December 2008, 2009 and 2010, our consolidated revenue was RUB 14.3 billion, RUB 20.2 billion and RUB 20.3 billion, respectively, and EBITDA was RUB 3.2 billion, RUB 7.6 billion and RUB 6.9 billion, respectively. Our net debt/EBITDA ratio was 1.4x, 0.3x and 0.6x as of 31 December 2008, 2009 and 2010, respectively.

Historically, we have focused our residential property development in the St. Petersburg Metropolitan Area, where we have achieved a leading position in the private sector (excluding individual construction), with an 11% average annual market share of total residential completions between 2000 and 2010. Leveraging on our extensive experience and capabilities, in 2008, we expanded our property development business into the Moscow Metropolitan Area by commencing development projects which, as of 31 December 2010, had over 1.1 million square metres of unsold net sellable area.

As of 31 December 2010, our portfolio consisted of 28 projects in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, accounting for approximately 64.4% and 35.6% of the project portfolio's total unsold net sellable area, respectively. With a view to secure predictable cash flow generation, we believe our project portfolio provides a well-balanced schedule of completions over the next six years, with approximately 52.5% of the portfolio's total unsold net sellable area comprising residential projects in the design stage, 45.8% comprising residential projects under construction, 1.1% comprising completed residential projects with unsold units and 0.6% comprising standing commercial property as of 31 December 2010. Subject to the assumptions set out in the Valuation Report, our beneficial interest in the project portfolio amounted to USD 1.4 billion (RUB 42.7 billion) as of 31 December 2010.

Access to our potential customer base is substantially expanded through our nationwide marketing and sales network. Focused on the regions in which people with the highest disposable income reside in Russia (including regions rich in natural resources), our network targets prospective buyers who are seeking to relocate or purchase secondary housing in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. Our regional pre-sales and sales contracts accounted for approximately 27.9% of our total contracts concluded in 2010.

As a vertically integrated developer with approximately 3,674 employees as of 31 December 2010, we have execution capabilities and technical expertise to manage the most important stages of the development process, starting from assessing development opportunities to master planning and permit management, construction, nationwide marketing and sales and on-going maintenance of the completed developments. We also operate selective businesses in the areas critical to our property development business, including production of construction materials, such as bricks, ready-mix concrete, reinforced concrete structures and aerated concrete, and tower crane operations, offering the latest generation vehicles. We believe our integrated business model allows us to control quality over the development process, realise synergistic cost savings, shorten production cycle and lower risk of dependence on suppliers in key supply and service areas.

We are also a leader in industrial construction in the North-West region of Russia based on a solid track record of successfully executing large and complex industrial construction projects since 1987. We undertake industrial construction projects in the capacity of either a general contractor or a subcontractor for both domestic and international customers, such as Toyota, Ford, General Motors, Nissan and other household names. We plan to maintain our industrial construction operations in order to build upon our expertise, utilise our capacity and support our brand equity.

Segment Reporting

We have three reportable segments in our Consolidated Financial Statements, which are our strategic business units. The strategic business units offer different products and services, and are managed discretely because they require different technologies and marketing strategies. These strategic business units are: (1) the development and sale of residential complexes (including parking places and built-in commercial premises) categorised under the residential development segment; (2) construction services provided intra-group and to third parties, categorised under the construction services segment; and (3) sale of construction materials, the development and sale of stand-alone premises for commercial use, and services related to the sale and servicing of premises, all of which are categorised under the other operations segment.

Our residential development segment is our largest business unit. External revenue of our residential development segment was 83.0%, 85.2% and 82.0% of our consolidated revenue for the years ended 31 December 2010, 2009 and 2008, respectively.

Recent Developments

Subsequent to 31 December 2010, we have entered into the following material transactions:

On 31 January 2011, we entered into two sale and purchase agreements with respect to the acquisition of rights to the land under the Smolenskaya street-9 development. The total purchase price under the agreements is RUB 400 million.

In February 2011, we drew an additional tranche of loans under our credit line agreement with Alfabank dated 6 August 2010 for RUB 545 million, bearing an interest rate of EURIBOR+7%, which is repayable in 2014. For more details see “— *Liquidity and Capital Resources — Major Credit Agreements*”.

With effect from 20 March 2011, pursuant to an ordinary resolution, each of our existing Ordinary Shares of GBP 0.01 was sub-divided into 200 Ordinary Shares of GBP 0.00005 each.

Our total current and non-current loans and borrowings increased by RUB 1,188 million, or 14.6%, from RUB 8,126 million as of 31 December 2010 to RUB 9,314 million as of 11 April 2011.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the following factors significantly affected our results of operations for the years ended 31 December 2008, 2009 and 2010 and will have a significant impact on our results of operations in the future.

Macroeconomic Factors

All our current properties and projects are located in Russia. As a result, macroeconomic trends and factors specific to Russia significantly influence our performance. The following table sets out key economic indicators for the Russian Federation as at and for the years ended 31 December 2008, 2009 and 2010.

	For the year ended 31 December		
	2008	2009	2010
Real GDP growth/(decline), year-on-year (%)	5.2	(7.9)	4.0
Inflation, Dec/Dec (%) ⁽¹⁾	13.3	8.8	6.9
Unemployment rate (%)	6.4	8.2	7.2
Real disposable income growth, year-on-year (%)	2.3	2.1	4.1 ⁽²⁾

Sources: Rosstat

(1) Inflation is measured as the percentage change in the CPI.

(2) Estimated.

Prior to the onset of the economic downturn in 2008, the Russian economy grew significantly, largely driven by high commodity prices, particularly for oil and gas. We believe that GDP growth and the significant increases in real disposable income and household expenditures in 2007 and the first half of 2008 had a positive impact on our revenue in 2008 and even more so in 2009 as the delayed impact of the growing economy on the revenue of our residential development segment took hold (see “— *Revenue and cost recognition*” below). The strong economy in 2007 and the first half of 2008 also allowed us to expand our growth through the acquisition of development rights, principally for residential properties, allowed us to increase our rate of construction compared to the prior corresponding periods, and allowed us to benefit from rising prices.

In contrast, the economic downturn starting in the second half of 2008 and through 2009 has had an adverse effect on various aspects of our results of operations and financial condition since 2009, largely affecting our earnings for the year ended 31 December 2010 (see “— *Revenue and cost recognition*” below). In addition, due to the size of our residential development segment in our overall business, and the lag between pre-sales and the recognition of revenue in that segment, we expect the economic downturn to adversely affect our results of operations beyond 2010.

An overall reduction in the growth of disposable income of the general population, together with an increase in the unemployment rate, led to a reduced demand for residential properties, including ours. In addition to a decrease in real disposable income, the economic downturn affected the availability of mortgage financing for prospective purchasers of real estate, which also affected the demand for real estate (although the Russian real estate market is substantially less dependent on mortgage financing than is the case in most Western countries). Residential real estate prices fell during this period. Based on our pre-sales activity, we believe prices are yet to recover to pre-downturn levels. In addition, reduced cash flows from sales of our real estate properties led us, prudentially and strategically, to slow down our development activities towards the end of 2008 until the summer of 2009, which we expect will delay the availability for sale of the corresponding net sellable area.

The following table sets out the amount of net sellable area sold through new pre-sales and sales contracts, net sellable area completed and net sellable area transferred to customers in our residential development segment during the same periods.

Residential Development⁽¹⁾	For the year ended 31 December		
	2008	2009	2010
	NSA, thousand sq. m.		
New sales contracts ⁽²⁾	271	145	200
Completed ⁽³⁾	342	255	180
Transferred to customers ⁽⁴⁾	238	250	219

(1) Net sellable area includes built-in commercial premises but does not include associated parking places.

(2) Net sellable area of flats for which sales contracts have been entered into with customers.

(3) Net sellable area of flats accepted by the State Commission.

(4) Net sellable area of flats for which all conditions for recognition of revenue have been satisfied, including acts of acceptances having been signed by customers.

The following table sets out the Rouble value of the net sellable area transferred to customers in our residential development segment during the same periods.

Residential Development⁽¹⁾	For the year ended 31 December		
	2008	2009	2010
	mln RUB		
RUB value of net sellable area transferred to customers	11,701	16,746	15,990

(1) Net sellable area includes built-in commercial premises but does not include associated parking places.

The following table sets out the net sellable area and total Rouble value of the net sellable area transferred to customers during the same periods, broken down by individual projects.

Project	For the year ended 31 December					
	2008		2009		2010	
	NSA, thousand sq. m.	mln RUB	NSA, thousand sq. m.	mln RUB	NSA, thousand sq. m.	mln RUB
Bryanceva	15,780	631	322	15	—	—
Dom na Rudneva	11,097	657	720	42	230	12
Avangardnaya	2,984	129	229	10	46	3
Zhivoy Rodnik	37	1	—	—	—	—
Lanskoy Kvartal	185	10	4	0	—	—
Olminkogo 5	47	4	—	—	46	1
Bolshevikov, 57/3	1,109	76	—	—	—	—
Dom u Chernoy Rechki	—	—	4	—	—	—
Nauki 19	—	—	—	—	—	5
Novaya Grazhdanka	—	—	—	—	5	0
Sea Cascade	238	6	—	—	—	—
Sea Façade	2,038	103	390	17	—	—
Near Rostral Columns	6,368	319	2,503	98	—	—

Project	For the year ended 31 December					
	2008		2009		2010	
	NSA, thousand sq. m.	mln RUB	NSA, thousand sq. m.	mln RUB	NSA, thousand sq. m.	mln RUB
Petrogradsky Etalon	15,257	1,077	14,653	1,399	3,059	322
Oktyabrskaya						
Embankment	20,746	992	491	27	—	—
Rainbow	—	—	52,128	3,288	77,263	6,136
Polezhaevskie Houses . . .	—	—	18,843	1,240	1,599	109
Golden Bay	83,240	3,809	33,956	2,819	14,025	1,190
Grazhdanka City	18,196	679	1,010	38	103	8
Grazhdanka City-2	36,574	2,243	3,522	207	540	38
New Constellation	24,589	962	61,045	3,332	28,075	1,980
Invigorating Stream	—	—	43,093	3,066	6,177	442
Jubilee Estate phase 1 . . .	—	—	17,320	1,148	87,466	5,743
Total	<u>238,482</u>	<u>11,701</u>	<u>250,231</u>	<u>16,746</u>	<u>218,633</u>	<u>15,990</u>

The following table sets out our average realised prices of flats (based on recognised revenue) in the St. Petersburg Metropolitan Area for the years ended 31 December 2008 and 2009 and for each month in the year ended 31 December 2010.

	St. Petersburg Metropolitan Area thousands of RUB per sq. m.
2008	48
2009	68
January 2010	71
February 2010	71
March 2010	71
April 2010	70
May 2010	67
June 2010	75
July 2010	75
August 2010	73
September 2010	72
October 2010	70
November 2010	71
December 2010	64

Source: management accounts. Increase (decrease) in our average retail realised prices per square metre may be influenced by several factors, including (i) increased (decreased) demand for real estate resulting in higher (lower) market prices; (ii) shorter (longer) period between the pre-sale of an apartment in a building and the completion of the building; (iii) smaller (larger) footage of an apartment; and/or (iv) the specific characteristics of an apartment (such as location, view, etc).

Costs and Efficiency

We are one of the few vertically integrated developers in Russia. We believe that vertical integration is a key element to optimising our profitability in the long-term. We believe we have been successful in both identifying potential bottlenecks in the supply chain for construction, and bringing those areas in-house. For example, after identifying a shortage of cranes available to construction companies, we decided when the opportunity arose to acquire LLC Severnaya Vysota I K, a company which owns enough cranes to permit our operation to be self-sufficient in that respect in the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area. We acquired control of this company at the end of 2009. See “— Key Factors affecting our Results of Operations — Disposals and Acquisitions”. Similarly, in St. Petersburg we are self-sufficient in bricks and sell what we do not need externally. In contrast, we concluded that external sources of sand, gravel, cement and other commoditised construction materials were sufficiently secure that we did not need to bring their supply in-house. Our vertically integrated model offers us greater security of supply of the relevant construction materials and services, including giving us greater control of their quality and the timing of their delivery within the construction process, as well as helping us keep the costs of these construction materials and services down. For the most part, we put supply of construction materials and services out to tender, even where we have our own internal supplies, which we believe helps us to control our costs. In determining whether to use external sub-contractors or our own general contractors, we take into account the capacity and location of our general contractors and the pricing, complexity and timing of the

necessary works. For example, where our own contractors are at capacity or where a third-party subcontractor offers more favourable pricing, we are more likely to use a third-party subcontractor.

We do not present a breakdown of our cost of sales in our financial statements or in our internal management accounts. We believe that the largest components of our cost of sales, however, have typically been costs in respect of construction materials, third-party subcontractors, project, research and other services and salaries and wages of group employees. Depending on the price of the land plot — which can vary significantly — relating to a project whose revenue is being recognised, the cost of such land plot can also be a substantial component of cost of sales.

Materials

The cost of materials primarily consists of the costs of construction materials used in the construction of our projects, including cement, gravel, sand, bricks and metal. We expect total cost of materials to increase as a result of a planned increase in construction volumes. We also expect prices to increase as the residential real estate market continues to recover. There is generally a correlation between the price of construction materials and prices for residential real estate. Increases in prices in construction materials typically lag increases in residential real estate prices. However, developers are generally quicker to renegotiate prices for construction materials in response to significant downturns.

Third-party subcontractors

While we try to use our own contractors as much as we can, we also use third-party subcontractors. Costs of services provided by third-party subcontractors typically represent a significant portion of our costs of sales. These costs are typically lower during a downturn, as a result of overcapacity of subcontractors. We expect their prices to rise as the economy continues to recover and demand for their services increases.

Project research and other services

Project research and other services primarily consists of costs associated with the design of our projects, management services for our projects, and costs associated with the installation of utilities at our residential complexes.

Salaries and wages

The Company records salaries and wages in the following line items: costs of sales, general and administrative expenses and selling expenses (which includes salaries and wages paid to our marketing staff). We expect that increases in wages, salaries and social charges in all these line items will outstrip inflation and will continue to have a significant effect on our results of operations.

Purchase of land plots

The Company records cost of land plots in the cost of sales line item when revenue from the relevant flats is recognised. Before the onset of the economic downturn, most of our land plots were acquired through upfront cash payments at or about the time of entry into the agreement. Since the economic downturn, however, we have also adopted a mixed payment method where we pay only a portion of the price in cash upfront (typically ranging from 10% to 20% of the total price), with the balance settled by transferring a portion (typically ranging from 10% to 20% of the net sellable area) of the completed residential complex to the seller. We believe that this mixed payment method significantly enhanced our ability to manage our cash-flow during the economic downturn. See “— *Liquidity and Capital Resources*”. Generally, the amount of cost of sales that relates to purchase of land plots includes the cash component only of a mixed payment. Similarly, the revenue recognised from a mixed payment does not reflect an amount in respect of the relevant portion of the completed residential complex transferred to the seller. In some cases, where the precise flats to be transferred in a mixed payment to the seller are agreed at the date on which the agreement is concluded, as is the case with the Emerald Hills project, the amount of cost of sales that relates to purchase of land plots includes both the cash and the non-cash component. Similarly, the revenue recognised reflects an amount in respect of the relevant portion of the completed residential complex transferred to the seller. We continue to use the mixed payment method for most of our land plot purchases. The more we use the mixed payment method, the less net sellable area we have available for sale to our customers. Consequently, we intend to strategically manage how much we employ this method in the future, balancing our cash flow needs with the potential opportunities to enhance our profits by selling more of this space for higher prices to our customers. We intend to use the proceeds of the Offering to acquire land plots, principally on an all-cash basis. See “*Use of Proceeds*”.

Disposals and Acquisitions

Between 1 January 2008 and 31 December 2010, we did not make any significant disposals of subsidiaries. Between 1 January 2008 and 31 December 2010, we acquired the following business. Our results of operations reflect the impact of this acquisition.

LLC Severnaya Vysota I K. On December 18, 2009 we obtained control of a company holding construction cranes under finance lease contracts by acquiring 70% of the shares, increasing our equity interest from 30% to 100%. The share purchase was at nominal value. As part of the acquisition we also assumed directly liability for certain lease contracts. However, companies in our group had already guaranteed certain of these liabilities. Taking control of LLC Severnaya Vysota I K has enabled us to reduce crane rent costs and help safeguard access to cranes that are essential for the construction process. Prior to the acquisition, we wrote-off certain loans we had made to this entity. After we acquired the entity, the remainder of these loans were eliminated on consolidation. Our financial results and total assets were not significantly affected by this acquisition. See “*Liquidity and Capital Resources — Cash Flows — Year ended 31 December 2009 compared to the year ended 31 December 2008*”.

REVENUE AND COST RECOGNITION

Revenue and cost recognition policies have a significant impact on our results of operations. Below we have summarised key elements of our revenue recognition policies for our residential development segment, which accounts for the vast majority of our revenue, and the key elements of our cost recognition policies.

Residential Development

Revenue from residential development is accounted for as a sale of goods and recognised in our statement of comprehensive income 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 property can be estimated reliably, there is no continuing management involvement in relation to the construction of the flat and the amount of the revenue can be measured reliably. The Company believes that these conditions can generally be considered to be satisfied on the date when the buyer signs the act of acceptance of the flat, which can only happen after the relevant building has been accepted by the State Commission. The relevant revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The fair value of the consideration received or receivable is generally the price at the date of concluding the sales contract, which may be significantly different from the prevailing market prices for similar properties as of the date when the sale is recognised.

Revenue of our residential development segment can vary significantly from period to period due to the long development cycles of our projects and significant fluctuations of real estate prices. We pre-sell the vast majority of our residential properties. This creates a lag between receipt by us of cash proceeds from our customers and recognition of revenue from such sales. The timing difference between a cash collection and revenue recognition depends on how early we are able to start pre-sales of our residential properties, what the payment plan is for the particular property and how late acts of acceptance are ultimately signed by customers after they are accepted by the State Commission. Some of the cash is also often received after the revenue has been recognised, depending on the payment plan agreed with the customer. See below for a discussion of the timing difference between cash receipts and revenue recognition. As a result of the long development cycles and the lag between cash receipts and recognition of revenue, there is a significant delay in the impact of market dynamics on our results of operations. See “— *Macroeconomic factors*”.

Typically, pre-sales start during the year in which we begin physical construction on site, i.e. when our pre-development activities have been completed. Prior to the onset of the economic downturn, typically, we had pre-sold in each phase of our residential properties approximately 85% of the net sellable area by the time the relevant building was accepted by the State Commission with approximately 10% and 5% of the net sellable area sold in the first and second year after commissioning, respectively. Following the economic downturn, this pattern shifted to fewer sales contracted before commissioning: in each phase of our residential properties, approximately 60% of the net sellable area is pre-sold by the time the relevant building is accepted by the State Commission with approximately 25% and 15% of the net sellable area sold in the first and second year after commissioning, respectively. Overall, we believe our pre-sale business model provides us with significant benefits, including conservative cash management, minimum leverage, improved predictability of future earnings and an improved return on capital.

Construction Services

Revenue from construction services is accounted for as a sale of goods and recognised in our statement of comprehensive income in one of two ways, depending on how we treat the relevant contract. We distinguish between two types of construction contracts: (i) contracts for provision of construction services, and (ii) 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. 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 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 they have been agreed with the customer. See “— *Critical Accounting Policies — Revenue Recognition in relation to Construction Contracts*”.

Recognition of costs

Costs related to identification and acquisition of new development sites and site assessment are initially capitalised and recorded in the inventory line item in our statement of financial position. If the decision is taken not to develop the site, these costs are expensed to other expenses in our statement of comprehensive income. If the decision is taken to develop the site, these costs remain as inventories until revenue from the relevant contracts for the site are recognised, at which point these costs are expensed to cost of sales.

Costs incurred in relation to the construction of residential complexes (which include flats, built-in commercial premises and parking places) are initially capitalised and accounted for in the inventory line item in our statement of financial position. When the revenue with respect to each apartment is recognised, costs incurred are then expensed to cost of sales.

RESULTS OF OPERATIONS

The following table sets out selected financial information for the years ended 31 December 2008, 2009 and 2010 extracted without material adjustment from our Consolidated Financial Statements and shows our results of operations as a percentage of revenue for the applicable period:

Consolidated statement of comprehensive income data

	For the year ended 31 December					
	2008		2009		2010	
	mln RUB	%	mln RUB	%	mln RUB	%
Revenue	14,269	100.0	20,193	100.0	20,316	100.0
Cost of sales	(9,161)	(64.2)	(11,023)	(54.6)	(11,078)	(54.5)
Gross profit	5,108	35.8	9,170	45.4	9,238	45.5
Selling expenses	(451)	(3.2)	(131)	(0.6)	(589)	(2.9)
General and administrative expenses	(1,541)	(10.8)	(1,440)	(7.1)	(2,047)	(10.1)
Other operating expenses, net	(149)	(1.0)	(196)	(1.0)	(177)	(0.9)
Results from operating activities	2,967	20.8	7,403	36.7	6,425	31.6
Finance income	174	1.2	225	1.1	284	1.4
Finance costs	(1,257)	(8.8)	(1,049)	(5.2)	(667)	(3.3)
Profit before income tax	1,888	13.2	6,581	32.6	6,042	29.7
Income tax expense	(715)	(5.0)	(1,434)	(7.1)	(1,355)	(6.7)
Profit for the year	1,173	8.2	5,147	25.5	4,687	23.1

EXPLANATION OF KEY STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

We break down our revenue into the following categories:

- Sale of flats
- Construction services

- Sale of built-in commercial premises
- Sale of stand-alone commercial premises
- Sale of parking places
- Sale of construction materials
- Rental revenue
- Other revenue

Sale of flats

A large majority of our revenue is derived from sales of residential development. All of our revenue from sale of flats is recorded in the residential development segment.

The price of our flats is denominated in units, each unit corresponding to an initial number of Roubles. The number of Roubles per unit may be adjusted in response to movements in the Rouble-US dollar exchange rate. For most contracts in the period under review concluded before 2009, if the Rouble depreciated against the US dollar beyond a certain threshold, the number of units the customer was required to pay increased as a result of the adjustment. The potential foreign exchange risk to our customers was potentially unlimited. From February 2009, we amended our customer contracts so that the number of units payable by a customer was adjusted depending on movements in the Rouble-US dollar exchange rate within a specified corridor. This limited the foreign exchange risk to our customers. While our unit-based pricing terms helped mitigate the impact of the economic downturn on our revenue, since the Rouble generally fell against the US dollar during that period, we balanced enforcement of these terms against the desire to retain the affordability of payments for our flats during these times by our customers. See “— *Quantitative and Qualitative Disclosures about Market Risk — Foreign Exchange Risk*”. The company continues to look at its pricing models and may adjust these features with respect to new contracts in the future.

Construction services

Revenue from construction services is recorded in the construction services segment.

Sale of built-in commercial premises and parking places

Revenue from sale of built-in commercial premises is recorded in the residential development segment.

Sale of stand-alone commercial premises

Revenue from sale of stand-alone commercial premises is recorded in the other segment.

Sale of parking places

Revenue from sale of parking places is recorded in the residential development segment.

Sale of construction materials

Revenue from sale of construction materials, such as bricks, prefabricated concrete structures, is recorded in the other segment.

Rental revenue

Rental revenue consists primarily of revenue derived from letting out built-in commercial premises which we have not yet sold but which have been commissioned with the State Commission. Rental revenue is recorded in the other segment.

Other revenue

Other revenue consists primarily of revenue derived from housing and utility services which we provide to customers of our residential development operations. Other revenue is recorded in the other segment.

General and administrative expenses

Our administrative expenses in the periods under review consisted primarily of expenses related to payroll and related taxes of head office staff.

Selling expenses

Our selling expenses in the periods under review consisted primarily of expenses related to:

- Marketing and advertising;
- Agents' commissions; and
- Salaries and wages paid to our marketing staff.

Finance income

Finance income in the periods under review consisted primarily of:

- gain on operations with CLNs and LPNs,
- interest income on bank deposits,
- interest income on loans and receivables,
- interest income on promissory notes,
- gain on write-off of accounts payable.

Finance costs

Finance expenses in the periods under review consisted primarily of:

- interest expense on loans,
- net foreign exchange loss,
- allowance for doubtful accounts receivable.

All borrowing costs, which are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in the statement of comprehensive income and expensed as incurred.

Profit before income tax

Profit before tax is equal to the sum of gross profit and financial income less the sum of selling expenses, general and administrative expenses, financial expenses and other expenses, net.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income 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.

Deferred tax is recognised using the balance sheet method, providing for 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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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 relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

Profit for the Year

Profit for the year is profit before tax reduced by income tax expense.

YEAR ENDED 31 DECEMBER 2010 COMPARED TO YEAR ENDED 31 DECEMBER 2009

The following table sets out selected financial information for the years ended 31 December 2009 and 2010 extracted without material adjustment from our Consolidated Financial Statements and shows our results of operations as a percentage of revenue for the applicable period:

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2009		2010	
	mln RUB	%	mln RUB	%
Revenue	20,193	100.0	20,316	100.0
Cost of sales	(11,023)	(54.6)	(11,078)	(54.5)
Gross profit	9,170	45.4	9,238	45.5
Selling expenses	(131)	(0.6)	(589)	(2.9)
General and administrative expenses	(1,440)	(7.1)	(2,047)	(10.1)
Other expenses, net	(196)	(1.0)	(177)	(0.9)
Results from operating activities	7,403	36.7	6,425	31.6
Finance income	225	1.1	284	1.4
Finance costs	(1,049)	(5.2)	(667)	(3.3)
Profit before income tax	6,581	32.6	6,042	29.7
Income tax expense	(1,434)	(7.1)	(1,355)	(6.7)
Profit for the year	5,147	25.5	4,687	23.1

Revenue

Our total revenue increased by RUB 123 million, or 0.6%, from RUB 20,193 million for the year ended 31 December 2009 to RUB 20,316 million for the year ended 31 December 2010.

The following table sets forth a breakdown of our total revenue by type for the years ended 31 December 2009 and 2010:

	For the year ended 31 December				
	2009		2010		Change
	Amount	Share	Amount	Share	
	mln RUB	%	mln RUB	%	%
Sale of flats	15,631	77.4	14,560	71.7	(6.9)
Construction services	1,842	9.1	1,631	8.0	(11.5)
Sale of built-in commercial premises	1,115	5.5	1,430	7.0	28.3
Sale of stand-alone commercial premises	255	1.3	539	2.7	111.4
Sale of parking places	451	2.2	863	4.2	91.4
Sale of construction materials	194	1.0	225	1.1	16.0
Rental revenue	94	0.5	118	0.6	25.5
Other revenue	611	3.0	950	4.7	55.5
Total revenue	20,193	100.0	20,316	100.0	0.6

Revenue by operating segments

The following table presents our total revenue and gross profit by operating segment for the years ended 31 December 2009 and 2010:

	For the year ended 31 December					
	2009		2010		2010	
	Residential development	Construction services	Other	2009	2010	2010
	mln RUB					
External revenue	17,197	16,853	1,842	1,631	449	764
Inter-segment revenue	—	—	3,982	5,259	618	833
Total segment revenue	17,197	16,853	5,824	6,890	1,067	1,597
Gross profit	8,124	8,984	346	714	12	86

Residential development segment

Revenue from our residential development segment was RUB 16,853 million for the year ended 31 December 2010, a decrease of RUB 344 million, or 2% from RUB 17,197 million for the year ended 31 December 2009. The decrease in residential development segment revenue resulted primarily from a decrease in the number of flats for which revenue was recognised in 2010 compared to 2009. The prices of flats for sales recognised in 2010 included flats pre-sold in 2008 when the real estate market was still strong as well as flats pre-sold after the onset of the economic downturn. The onset of the economic downturn also had a flattening effect on net sellable area pre-sold in 2010.

Construction services segment

External revenue from our construction services segment was RUB 1,631 million for the year ended 31 December 2010, a decrease of RUB 211 million, or 11.5% from RUB 1,842 million for the year ended 31 December 2009. The decrease was because of the lower levels of construction for third parties in 2010 than in the prior corresponding period as a result of the economic downturn.

Inter-segment revenue from our construction services segment was RUB 5,259 million for the year ended 31 December 2010, an increase of RUB 1,277 million, or 32.1% from RUB 3,982 million for the year ended 31 December 2009. The increase was because we started to construct our own developments more rapidly in 2010 as the market began to recover.

As a result of the foregoing factors, total revenue from our construction services segment was RUB 6,890 million for the year ended 31 December 2010, an increase of RUB 1,066 million, or 18.3%, from RUB 5,824 million for the year ended 31 December 2009.

Other segment

External revenue from our other segment was RUB 764 million for the year ended 31 December 2010, an increase of RUB 315 million, or 70.2%, from RUB 449 million for the year ended 31 December 2009. This increase was primarily attributable to revenue recognised from the sale in 2010 of premises in stand-alone commercial buildings that were completed in 2009.

Inter-segment revenue from our other segment was RUB 833 million for the year ended 31 December 2010, an increase of RUB 215 million, or 34.8%, from RUB 618 million for the year ended 31 December 2009. This increase was primarily attributable to an increase in revenue from sale of construction materials.

As a result of the foregoing factors, total revenue from our other segment was RUB 1,597 million, an increase of RUB 530 million, or 49.7%, from RUB 1,067 million for the year ended 31 December 2009.

Revenue by geographical location

The following table presents our total revenue by geographical location of properties for the years ended 31 December 2009 and 2010:

	For the year ended 31 December	
	2009	2010
	Revenue	
	mln RUB	
St. Petersburg Metropolitan Area	19,698	20,064
Moscow Metropolitan Area	<u>495</u>	<u>252</u>
Total revenue	<u>20,193</u>	<u>20,316</u>

Total revenue for the St. Petersburg Metropolitan Area was RUB 20,064 million for the year ended 31 December 2010, an increase of RUB 366 million, or 1.9% from RUB 19,698 million for the year ended 31 December 2009. The increase was primarily the result of increases in the sale of commercial premises and parking places, both of which are primarily driven by the market in St. Petersburg.

Total revenue for the Moscow Metropolitan Area was RUB 252 million for the year ended 31 December 2010, a decrease of RUB 243 million, or 49.1% from RUB 495 million for the year ended 31 December 2009. The decrease was primarily attributable to the decrease in revenue recognised under a long-term construction contract with a particular customer, which ended in 2010. None of the revenue for this period related to the sale of flats, because we had only recently expanded our operations into this area and the relevant flats were still under construction during this period.

Sale of flats

In the year ended 31 December 2010, approximately 71.7% of our revenue was derived from the sale of flats. Revenue from the sale of flats decreased by 6.9%, from RUB 15,631 million in the year ended 31 December 2009 to RUB 14,560 million in the year ended 31 December 2010. The decrease was primarily attributable to a decrease in the number of flats transferred to customers during the period as compared to 2009.

Construction services

Revenue from construction services decreased by RUB 211 million, or 11.5% from RUB 1,842 million for the year ended 31 December 2009 to RUB 1,631 million for the year ended 31 December 2010. The decrease was mainly attributable to the lower levels of construction for third parties in 2010 as compared to 2009, as a result of the economic downturn.

Sale of built-in commercial premises

Revenue from the sale of built-in commercial premises increased by RUB 315 million, or 28.3%, from RUB 1,115 million for the year ended 31 December 2009 to RUB 1,430 million for the year ended 31 December 2010. This increase was primarily attributable to a one-off sale of commercial premises in March 2010.

Sale of stand-alone commercial premises

Revenue from the sale of stand-alone commercial premises increased by RUB 284 million, or 111.4%, from RUB 255 million for the year ended 31 December 2009 to RUB 539 million for the year ended 31 December 2010. This increase was primarily attributable to the sale of stand-alone commercial premises completed in 2009 and sold in 2010.

Sale of parking places

Revenue from the sale of parking places increased by RUB 412 million, or 91.4%, from RUB 451 million for the year ended 31 December 2009 to RUB 863 million for the year ended 31 December 2010. As we normally recognise revenue from a parking place approximately a year after the associated flat has been transferred to the customer, as this is the time it often takes to commission the parking space and complete the sale, this increase was in line with the increase in flats transferred during 2009.

Sale of construction materials

Revenue from the sale of construction materials increased by RUB 31 million, or 16%, from RUB 194 million for the year ended 31 December 2009 to RUB 225 million for the year ended 31 December 2010, mainly as a result of an increase in construction activity in 2010 compared to 2009.

Rental revenue

Rental revenue increased by RUB 24 million, or 25.5%, from RUB 94 million for the year ended 31 December 2009 to RUB 118 million for the year ended 31 December 2010. The increase in revenue primarily resulted from an increase in rent levels and the amount of square metres rented out.

Cost of sales

Our cost of sales increased by RUB 55 million, or 0.5%, from RUB 11,023 million for the year ended 31 December 2009 to RUB 11,078 million for the year ended 31 December 2010. The Company monitors and manages the cost of projects but does not prepare analyses of the cost of sales reported in the Consolidated Financial Statements prepared in accordance with IFRS. However, the Company believes that this was due to generally stable prices for cost of sales components during 2008 and 2009.

Gross Profit

As a result of the foregoing factors, gross profit for the year ended 31 December 2010 increased by 0.7%, from RUB 9,170 million for the year ended 31 December 2009 to RUB 9,238 million for the year ended 31 December 2010. Gross profit represented 45.4% and 45.5% of our revenue in 2009 and 2010, respectively.

Residential development segment gross profit was RUB 8,984 million for the year ended 31 December 2010, an increase of RUB 860 million, or 10.6%, from RUB 8,124 million for the year ended 31 December 2009. The increase was because revenue grew faster than costs.

Construction services segment gross profit was RUB 714 million for the year ended 31 December 2010 from RUB 346 million for the year ended 31 December 2009. Construction services segment gross margin percentage increased from 5.9% to 10.4%. The increase was primarily a result of the increase in volume of inter-group construction services and higher prices available as the market recovered in 2010.

Other segment gross profit was RUB 86 million for the year ended 31 December 2010, an increase of RUB 74 million, or 617%, from RUB 12 million for the year ended 31 December 2009. The increase was primarily a result of the impact in 2009 of impairment of certain of our non-revenue generating commercial buildings as a result of the negative economic climate. We did not have any similar impairment in 2010.

Selling Expenses

Our selling expenses increased by RUB 458 million, or 350%, from RUB 131 million for the year ended 31 December 2009 to RUB 589 million for the year ended 31 December 2010. The increase in the selling expenses in the period under review was mainly due to an increase in our marketing activities in response to the recovering real estate market in 2010. We expect our selling expenses to continue to increase in future years.

General and administrative expenses

The table below details our general and administrative expenses for the periods under review by major components:

	For the year ended 31 December				
	2009		2010		Change
	Amount	Share	Amount	Share	
mln RUB	%	mln RUB	%	%	
Payroll and related taxes	1,025	71.2	1,433	70.0	39.8
Services	169	11.7	104	5.1	(38.5)
Bank fees and commissions	45	3.1	16	0.8	(64.4)
Audit and consulting services	42	2.9	123	6.0	192.9
Materials	22	1.5	31	1.5	40.9
Repair and maintenance	18	1.3	92	4.5	411.1
Social expenses	9	0.6	3	0.1	(66.7)
Other	110	7.7	245	12.0	122.7
Total	1,440	100.0	2,047	100.0	42.2

Our general and administrative expenses increased by RUB 607 million, or 42.2%, from RUB 1,440 million for the year ended 31 December 2009 to RUB 2,047 million for the year ended 31 December 2010. The increase in general and administrative expenses for the period under review was mainly due to the increase in payroll and related taxes as a result of the reintroduction of performance related bonus payments. We expect such performance related bonus payments to continue to be paid in the future.

Other expenses, net

Our other expenses, net decreased by RUB 19 million, or 9.7%, from RUB 196 million for the year ended 31 December 2009 to RUB 177 million for the year ended 31 December 2010.

The table below details our other operating income and expenses by major component:

	For the year ended 31 December	
	2009	2010
	mln RUB	
Other income		
Fees and penalties received	60	31
Gains on disposal of property, plant and equipment	64	1
	124	32
Other expenses		
Impairment of investments	—	—
Loss on disposal of subsidiaries	(5)	(12)
Other expenses	(315)	(197)
	(320)	(209)
Other expenses, net	(196)	(177)

The decrease in other expenses, net was mainly due to a decrease in other expenses of RUB 118 million, or 37.5%, from RUB 315 million for the year ended 31 December 2009 to RUB 197 million for the year ended 31 December 2010. This was primarily attributable to the writing down of loans made to LLC Severnaya Vysota I K before its acquisition in December 2009. No such write downs were made through this line item in 2010.

However, this was partially offset by a decrease in gains on disposal of property, plant and equipment of RUB 63 million, or 98.4%, from RUB 64 million for the year ended 31 December 2009 to RUB 1 million for year ended 31 December 2010, and a decrease in fees and penalties received of RUB 29 million, or 48.3%, from RUB 60 million for the year ended 31 December 2009 to RUB 31 million for year ended 31 December 2010, primarily attributable to a decrease in penalties received from third-party subcontractors for breach of contractual terms.

Results from operating activities

As a result of the foregoing factors, the results from operating activities decreased by RUB 978 million, or 13.2%, from RUB 7,403 million for the year ended 31 December 2009 to RUB 6,425 million for the year ended 31 December 2010.

Finance income

Our finance income increased by RUB 59 million, or 26.2%, from RUB 225 million for the year ended 31 December 2009 to RUB 284 million for the year ended 31 December 2010. The increase in our finance income was primarily attributable to a reversal in the allowance made for doubtful accounts receivable due to changes in our management's assessment of our ability to collect certain accounts receivable.

Finance costs

Our finance costs decreased by RUB 382 million, or 36.4%, from RUB 1,049 million for the year ended 31 December 2009 to RUB 667 million for the year ended 31 December 2010. The decrease in our finance costs was primarily attributable to a decrease in interest expense on loans and finance leases because we were able to capitalise more of these costs as our expenditure on qualifying assets, which determines how much interest we can capitalise, was substantially greater in 2010 than in 2009 due to increased construction activity, and to our decreased foreign exchange loss, which was a result of the smaller Rouble depreciation against the U.S. dollar in 2010 than in 2009.

Net finance costs

Our net finance costs decreased by RUB 441 million, or 53.5%, from RUB 824 million for the year ended 31 December 2009 to RUB 383 million for the year ended 31 December 2010.

Profit before Income Tax

For the reasons set forth above, our profit before income tax decreased to RUB 6,042 million for the year ended 31 December 2010 from a profit before income tax of RUB 6,581 million for the year ended 31 December 2009.

Income tax expense

The following table sets out our income tax expense for the years ended 31 December 2009 and 2010:

	For the year ended 31 December		
	2009	2010	Change
	mln RUB		%
Current tax expense	782	1,309	67.4
Deferred tax expense	652	46	(92.9)
Total income tax expense	1,434	1,355	(5.5)

Our current tax expense increased by RUB 527 million, or 67.4%, for the year ended 31 December 2010 compared with the year ended 31 December 2009 as a result of an increase in taxable profit.

Our deferred income tax expense decreased by RUB 606 million, or 92.9%, from the year ended 31 December 2009 compared with the year ended 31 December 2010. This was primarily attributable to differences in revenue recognition procedures under IFRS and Russian GAAP. In 2010, the difference between the revenue recognised under IFRS compared to our Russian GAAP financial statements was less than the difference in 2009, leading to a substantial decrease in our deferred tax expense.

Our effective tax rates, defined as income tax expense as a percentage of profit before tax, were 22% and 22% for the years ended 31 December 2009 and 2010, respectively. The effective income tax rate of 22% as compared to the Russian statutory income tax rate of 20% for the year ended 31 December 2009 and 2010 was primarily the result of the impact of certain expenses recognised under IFRS but not deductible for tax purposes.

Profit for the Year

As a result of the foregoing factors, our profit for the year decreased by RUB 460 million, or 8.9% from a profit of RUB 5,147 million in the year ended 31 December 2009 to a profit of RUB 4,687 million in the year ended 31 December 2010.

YEAR ENDED 31 DECEMBER 2009 COMPARED TO YEAR ENDED 31 DECEMBER 2008

The following table sets out selected financial information as of and for the years ended 31 December 2008 and 2009 extracted without material adjustment from our Consolidated Financial Statements and shows our results of operations as a percentage of revenue for the applicable period:

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2008		2009	
	mln RUB	%	mln RUB	%
Revenue	14,269	100	20,193	100
Cost of sales	(9,161)	(64.2)	(11,023)	(54.6)
Gross profit	5,108	35.8	9,170	45.4
Selling expenses	(451)	(3.2)	(131)	(0.6)
General and administrative expenses	(1,541)	(10.8)	(1,440)	(7.1)
Other operating expenses, net	(149)	(1.0)	(196)	(1.0)
Results from operating activities	2,967	20.8	7,403	36.7
Finance income	174	1.2	225	1.1
Finance costs	(1,257)	(8.8)	(1,049)	(5.2)
Profit before income tax	1,888	13.2	6,581	32.6
Income tax expense	(715)	(5.0)	(1,434)	(7.1)
Profit for the year	1,173	8.2	5,147	25.5

Revenue

Our total revenue increased by 41.5%, from RUB 14,269 million for the year ended 31 December 2008 to RUB 20,193 million for the year ended 31 December 2009. This increase was primarily the result of an increase of RUB 4,938 million, or 46.2%, in recognised sales of flats. We believe that the strong economy in 2007 and the first two quarters of 2008 had a positive impact on our revenue in 2008 and even more so in 2009 as the delayed impact of the growing economy on our revenue took hold (see “— Revenue and cost recognition” above).

The following table sets forth a breakdown of our total revenue by type for the years ended 31 December 2008 and 2009:

	For the year ended 31 December				
	2008		2009		Change
	Amount	Share	Amount	Share	
	mln RUB	%	mln RUB	%	%
Sale of flats	10,693	75.0	15,631	77.4	46.2
Construction services	1,389	9.7	1,842	9.1	32.6
Sale of commercial premises and parking places	1,008	7.1	1,821	9.0	80.7
Sale of construction materials	527	3.7	194	1.0	(63.2)
Rental revenue	105	0.7	94	0.5	(10.5)
Other revenue	547	3.8	611	3.0	11.7
Total Revenue	14,269	100.0	20,193	100.0	41.5

Revenue by operating segment

The following table presents our total revenue and gross profit by operating segment for the years ended 31 December 2008 and 2009:

	For the year ended 31 December					
	2008	2009	2008	2009	2008	2009
	Residential development		Construction services		Other operations	
	mln RUB					
External revenue	11,701	17,197	1,389	1,842	527	449
Inter-segment revenue	—	—	10,962	3,982	926	618
Total segment revenue	11,701	17,197	12,351	5,824	1,453	1,067
Gross profit	4,441	8,124	920	346	57	12

Residential development segment

Revenue from our residential development segment was RUB 17,197 million for the year ended 31 December 2009, an increase of RUB 5,496 million, or 47%, from RUB 11,701 million for the year ended 31 December 2008. The increase in residential development segment revenue resulted primarily from the recognition of revenue in 2009 from contracts for the sale of flats which had been made during 2007 and 2008, which were the years during which residential property prices in St. Petersburg were at their highest.

Construction services segment

External revenue from our construction services segment was RUB 1,842 million for the year ended 31 December 2009, an increase of RUB 453 million, or 32.6% from RUB 1,389 million for the year ended 31 December 2008. The increase was because we secured additional work for external industrial clients during the economic downturn, which, among other things, helped us to preserve our skilled workforce in preparation for the recovery.

Inter-segment revenue from our construction services segment was RUB 3,982 million for the year ended 31 December 2009, a decrease of RUB 6,980 million, or 63.7%, from RUB 10,962 million for the year ended 31 December 2008. The decrease was primarily due to our slowing down of our rate of construction during the economic downturn.

As a result of the foregoing factors, total revenue from our construction services segment was RUB 5,824 million for the year ended 31 December 2009, a decrease of RUB 6,527 million, or 52.8%, from RUB 12,351 million for the year ended 31 December 2008.

Other segment

External revenue from our other segment was RUB 449 million for the year ended 31 December 2009, a decrease of RUB 78 million, or 14.8%, from RUB 527 million for the year ended 31 December 2008. This decrease was primarily attributable to a decrease in the price and volume of construction materials sold due to the economic downturn, but this decrease was slightly offset by our commencing sales of premises in standalone commercial buildings.

Inter-segment revenue from our other segment was RUB 618 million for the year ended 31 December 2009, a decrease of RUB 308 million, or 33.3%, from RUB 926 million for the year ended 31 December 2008. This decrease was primarily attributable to a decrease in the price and volume of construction materials sold due to the economic downturn.

As a result of the foregoing factors, total revenue from our other segment was RUB 1,067 million, a decrease of RUB 386 million, or 26.6%, from RUB 1,453 million for the year ended 31 December 2008.

Revenue by geographical location

The following table presents our total revenue by geographical location of flats for the years ended 31 December 2008 and 2009:

	For the year ended 31 December	
	2008	2009
	Revenue	
	mln RUB	
St. Petersburg Metropolitan Area	14,269	19,698
Moscow Metropolitan Area	—	495
Total revenue	14,269	20,193

Total revenue for the St. Petersburg Metropolitan Area was RUB 19,698 million for the year ended 31 December 2009, an increase of RUB 5,429 million, or 38%, from RUB 14,269 million for the year ended 31 December 2008. The increase was primarily driven by the growth in the residential segment discussed above.

Total revenue for the Moscow Metropolitan Area was RUB 495 million for the year ended 31 December 2009. No revenue was recognised in relation to the Moscow Metropolitan Area for the year ended 31 December 2008. Moscow Metropolitan Area revenue in 2009 primarily consisted of income from construction services to third parties. None of the revenue for this period related to sales of flats, because we had only recently expanded our operations into this area and the relevant flats were still under construction during this period.

Sale of flats

In the year ended 31 December 2009, approximately 77.4% of our revenue was derived from the sale of flats. Revenue from the sale of flats increased by 46.2%, from RUB 10,693 million in the year ended 31 December 2008 to RUB 15,631 million in the year ended 31 December 2009. The increase is mainly attributable to the overall increase in sale prices. Revenue recognised in 2009 relates to contracts concluded in 2007 and 2008, which were the years during which demand and prices in St. Petersburg for residential premises were at their highest. See “— *Key factors affecting our results of operations — Macroeconomic factors*”.

Construction services

Revenue from construction services increased by RUB 453 million, or 32.6%, from RUB 1,389 million for the year ended 31 December 2008 to RUB 1,842 million for the year ended 31 December 2009. The increase is mainly attributable to the increase in revenue from construction contracts for external industrial clients which we secured in response to the economic downturn, which, among other things, helped us to preserve our skilled workforce in preparation for the recovery.

Sales of commercial premises and parking places

Revenue from the sale of commercial premises and parking places increased by RUB 813 million, or 80.7%, from RUB 1,008 million for the year ended 31 December 2008 to RUB 1,821 million for the year ended 31 December 2009. The increase is mainly attributable to revenue recognised for the sale of parking places constructed in earlier years when our rate of construction of flats, to which these parking places relate, was higher.

Sale of construction materials

Revenue from the sale of construction materials decreased by RUB 333 million, or 63.2%, from RUB 527 million for the year ended 31 December 2008 to RUB 194 million for the year ended 31 December 2009, mainly as a result of the economic downturn.

Rental revenue

Rental revenue decreased by RUB 11 million, or 10.5%, from RUB 105 million for the year ended 31 December 2008 to RUB 94 million for the year ended 31 December 2009. The decreased revenue primarily resulted from a lower average number of square metres rented out during each period and the lower rents these properties could command in a downturn.

Cost of sales

Our cost of sales increased by RUB 1,862 million, or 20.3%, from RUB 9,161 million for the year ended 31 December 2008 to RUB 11,023 million for the year ended 31 December 2009. This increase was primarily the result of an increase in the number of square metres of flats transferred to customers in 2009 compared to 2008. The Company monitors and manages the cost of projects but does not prepare analyses of the cost of sales reported in the Consolidated Financial Statements prepared in accordance with IFRS. However, the Company believes that prices of construction materials increased and the cost of land plots in respect of the projects whose revenue was recognised in 2009 was also higher than for those whose revenue was recognised in 2008. The Company believes that the prices of construction materials purchased in earlier periods did not go up as a percentage as much as the increase in revenue because raw material prices were lagging behind the increase in prices of real estate. In addition, in 2009, the wages and salaries included in cost of sales were RUB 962 million, a decrease of RUB 284 million, or 22.8% from RUB 1,246 million in 2008. We believe that the decrease in salaries that we effected starting in the second half of 2008 partially offset the increase in cost of sales.

Gross Profit

As a result of the foregoing factors, gross profit for the year ended 31 December 2009 increased by 79.5%, from RUB 5,108 million for the year ended 31 December 2008 to RUB 9,170 million for the year ended 31 December 2009. Gross profit increased for the year ended 31 December 2009 primarily due to the increase in revenue recognised from our sales of residential properties.

Residential development segment gross profit was RUB 8,124 million for the year ended 31 December 2009, an increase of RUB 3,683 million, or 82.9% from RUB 4,441 million for the year ended 31 December 2008. The large increase was because revenue grew faster than costs.

Construction services segment gross profit was RUB 346 million for the year ended 31 December 2009, a decrease of RUB 547 million, or 62.4% from RUB 920 million for the year ended 31 December 2008.

Other segment gross profit was RUB 12 million for the year ended 31 December 2009, a decrease of RUB 45 million, or 78.9%, from RUB 57 million for the year ended 31 December 2008. The decrease was primarily due to the impairment of certain of our non-revenue generating commercial buildings as a result of the negative macroeconomic climate.

Our gross margin was 35.8% and 45.4% in 2008 and 2009, respectively. The increase in gross margin between the years ended 31 December 2008 and 2009 was primarily attributable to the cost of sales related to residential property growing at a slower rate than increases in revenue, as discussed above.

Selling Expenses

Our selling expenses decreased by RUB 320 million, or 71.0%, from RUB 451 million for the year ended 31 December 2008 to RUB 131 million for the year ended 31 December 2009. The decrease in selling expenses in the period under review was mainly due to a decrease in marketing and advertising expenses. The economic downturn prompted us to decrease our spending on marketing via television and radio advertisements.

General and administrative expenses

The table below details our general and administrative expenses for the periods under review by major components:

	For the year ended 31 December				
	2008		2009		Change
	Amount	Share	Amount	Share	
	mln RUB	%	mln RUB	%	%
Payroll and related taxes	1,210	78.5	1,025	71.2	(15.3)
Services	115	7.5	169	11.7	47.0
Bank fees and commissions	53	3.4	45	3.1	(15.1)
Audit and consulting services	24	1.6	42	2.9	75.0
Materials	15	1.0	22	1.5	46.7
Repair and maintenance	26	1.7	18	1.3	(30.8)
Social expenses	21	1.4	9	0.6	(57.1)
Other	77	5.0	110	7.7	42.9
Total	<u>1,541</u>	<u>100.0</u>	<u>1,440</u>	<u>100.0</u>	<u>(6.6)</u>

Our general and administrative expenses decreased by RUB 101 million, or 6.6%, from RUB 1,541 million for the year ended 31 December 2008 to RUB 1,440 million for the year ended 31 December 2009. The decrease in general and administrative expenses for the period under review was mainly due to decreases in expenses associated with payroll and related taxes, partially offset by increases in services, audit and consulting services and other costs.

Payroll and related taxes decreased by RUB 185 million, or 15.3%, from RUB 1,210 million for the year ended 31 December 2008 to RUB 1,025 million for the year ended 31 December 2009, mainly as a result of our cost saving measures in response to the global market slowdown. In previous years, the performance-related bonus (paid monthly) comprised up to 20% of basic pay. In the second half of 2008, these monthly bonuses were not paid and base salaries also fell. We also reduced headcount in the second half of 2008.

Other operating expenses

Our other expenses increased by RUB 47 million, or 31.5%, from RUB 149 million for the year ended 31 December 2008 to RUB 196 million for the year ended 31 December 2009. The table below details our other operating income and expenses by major component:

	For the year ended 31 December	
	2008	2009
	mln RUB	
Other income		
Fees and penalties received	3	60
Gains on disposal of property, plant and equipment	<u>8</u>	<u>64</u>
	<u>11</u>	<u>124</u>
Other expenses		
Impairment of investments	(50)	—
Loss on disposal of subsidiaries	(4)	(5)
Other expenses	<u>(106)</u>	<u>(315)</u>
	<u>(160)</u>	<u>(320)</u>
Other expenses, net	<u>(149)</u>	<u>(196)</u>

The increase in other operating expenses was mainly due to an increase in other expenses of RUB 209 million, or 197%, from RUB 106 million for year ended 31 December 2008 to RUB 315 million for year ended 31 December 2009. This was primarily attributable to the writing down of loans made to LLC Severnaya Vysota I K (which represents RUB 76 million of the total).

However, this was partially offset by an increase in fees and penalties received by RUB 57 million, primarily attributable to an increase in penalties received from the Group's third party contractors for breach of contractual terms, and an increase of RUB 56 million in gains on disposal of property, plant and equipment. The decrease in impairment of investments since the year ended 31 December 2008 relates to the Group ceasing to write down loans made to LLC Severnaya Vysota I K through this line item.

Results from operating activities

As a result of the foregoing factors our results from operating activities increased by RUB 4,436 million, or 149.5%, from RUB 2,967 million for the year ended 31 December 2008 to RUB 7,403 million for the year ended 31 December 2009.

Finance income

Our finance income increased by RUB 51 million, or 29.3%, from RUB 174 million for the year ended 31 December 2008 to RUB 225 million for the year ended 31 December 2009. The increase in our finance income resulted primarily from an increase in gains on repurchases by us of CLNs, which increased by RUB 55 million, or 77%, from RUB 71 million for the year ended 31 December 2008 to RUB 126 million for the year ended 31 December 2009. However, the effect of this increase was partially offset by a decrease of RUB 29 million, or 30%, in interest income on bank deposits, from RUB 96 million for the year ended 31 December 2008 to RUB 67 million for the year ended 31 December 2009. This was mainly attributable to having less cash on deposit in 2009 compared to 2008.

Finance costs

For the year ended 31 December 2009, our finance costs decreased by RUB 208 million, or 16.5%, from RUB 1,257 million for the year ended 31 December 2008 to RUB 1,049 million for the year ended 31 December 2009. The decrease in our finance costs was primarily because of our decreased foreign exchange loss as a result of the smaller Rouble depreciation against the U.S. dollar in 2009 than in 2008.

This was offset by an increased interest expense on loans in 2009 compared to 2008. This was primarily attributable to our ability to capitalise more of our interest costs in 2008 than in 2009 because our expenditure on qualifying assets, which determines how much interest we can capitalise, was substantially greater in 2008 (the year in which we acquired the Emerald Hills project) than in 2009.

Net finance costs

For the year ended 31 December 2009, our net finance costs decreased by RUB 259 million, or 23.9%, from RUB 1,083 million for the year ended 31 December 2008 to RUB 824 million for the year ended 31 December 2009.

Profit before Income Tax

For the reasons set forth above, our profit before income tax increased to RUB 6,581 million for the year ended 31 December 2009 from a profit before income tax of RUB 1,888 million for the year ended 31 December 2008.

Income tax expense

The following table sets out our income tax expense for the years ended 31 December 2008 and 2009:

	For the year ended 31 December		
	2008	2009	Change
	mln RUB		%
Current tax expense	670	782	16.7
Deferred tax expense	45	652	1,348.9
Total income tax expense	715	1,434	100.6

Our current income tax expense increased by 16.7% from the year ended 31 December 2009 compared with the year ended 31 December 2008 as a result of an increase in taxable profit.

Our deferred income tax expense increased by RUB 607 million from the year ended 31 December 2009 compared with the year ended 31 December 2008. This is primarily attributable to differences in revenue recognition procedures under IFRS and Russian GAAP. For the year ended 31 December 2009, considerably more revenue was recognised under IFRS than under Russian GAAP, leading to a substantial increase in our deferred tax expense.

The total income tax increased by RUB 719 million, or 100.6%, from RUB 715 million for the year ended 31 December 2008 to RUB 1,434 million for the year ended 31 December 2009 as a result of adjustments to the provision for deferred tax.

Our effective tax rates, defined as income tax expense as a percentage of profit before tax, were 38% and 22% for the years ended 31 December 2008 and 2009, respectively. The effective income tax rate of 22% as compared to the Russian statutory income tax rate of 20% for the year ended 31 December 2009 was primarily the result of the impact of certain expenses recognised under IFRS but not recognised for tax purposes. The effective income tax rate of 38% for the year ended 31 December 2008 was primarily the result of a reduction in the statutory tax rate causing a reduction in the Company's deferred tax assets, leading to an increase in our income tax expense for the period.

Profit for the Year

As a result of the foregoing factors, our profit for the year increased by RUB 3,974 million, or 338.8%, from a profit of RUB 1,173 million in the year ended 31 December 2008 to a profit of RUB 5,147 million in the year ended 31 December 2009.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our capital requirements and the requirements of our investment program from cash provided by a range of sources, but principally from cash from operations (principally cash from pre-sales of residential properties), bank loans, unsecured bond issuances and other financing sources. We expect cash from operations and bank and bond debt will continue to be important sources of liquidity for us in the future. We believe that we have applied a prudent approach to managing our liquidity and capital resources. We decreased our level of debt (defined as our loans and borrowings) during the economic downturn from RUB 6,736 million (USD 229.3 million) as at 31 December 2008 to RUB 5,844 million (USD 193.3 million) as at 31 December 2009 with our healthy operating cash flows. The result of this was to change the profile of our outstanding indebtedness by substantially reducing the short-term debt component. Our strategy is to keep our leverage below two times EBITDA, to use cash from pre-sales to finance development, and to use proceeds from the Offering to acquire new land plots, develop our land bank and finance the early development of new projects. Our strategy also involves potentially making prudent use of bank and bond debt.

Pre-sales of flats in a building constitute the primary source of funding for the construction of the building. Currently, we pre-sell nearly all residential real estate units in our developments before construction is completed and buildings are accepted by the State Commission. Generally, we begin to offer residential property units for sale

once the construction permit has been granted and ground-work on the building has commenced. This often allows us to receive advances from purchasers approximately 18 months before the scheduled completion of such properties. Our typical payment plan also leaves a portion of the price remaining payable until after the property has been transferred to the customer — the period is typically about 24 months, though this period was often longer during the economic downturn. As of 31 December 2010, 31 December 2009 and 31 December 2008, the advances from customers were RUB 11,988 million, RUB 17,869 million and RUB 23,283 million, respectively.

As well as needing cash for developing land, we also need cash to acquire land plots. Since the economic downturn, however, we started using a mixed method of payment for the acquisition of land — we paid only a portion of the price in cash upfront (typically ranging from 10% to 20% of the price), with the balance settled by transferring a portion of the completed residential real estate to the seller. We believe that this mixed payment method significantly enhanced our ability to manage our cash flows during the economic downturn. We are still employing this mixed payment method for the purchase of land plots. It may become harder to employ this method as demand for land increases. The mixed method also reduces the net selling area available for sale to customers during the development cycle of the real estate, and so we intend to strategically manage how much we employ this method in the future, balancing our cash flow needs with the potential opportunities to enhance our profits by selling more of this space for higher prices to our customers.

Cash Flows

A summary of our cash flows is presented in the table below for the periods indicated:

	For the year ended 31 December		
	2008	2009	2010
	mln RUB		
Cash flows from/(utilised by) operating activities	659	2,180	(1,184)
Cash flows utilised by investing activities	(378)	(155)	(555)
Cash flows from/(utilised by) financing activities	1,143	(1,021)	2,039
Net increase in cash and cash equivalents	1,424	1,004	300
Effect of exchange rate fluctuations on cash and cash equivalents	35	34	(80)
Cash and cash equivalents at beginning of year	<u>919</u>	<u>2,378</u>	<u>3,416</u>
Cash and cash equivalents at end of year	<u>2,378</u>	<u>3,416</u>	<u>3,636</u>

Year ended 31 December 2010 compared to the year ended 31 December 2009

Cash flows from operating activities amounted to a net outflow of RUB 1,184 million for the year ended 31 December 2010, compared to a net inflow of RUB 2,180 million for the year ended 31 December 2009. This change was primarily a result of the increase in the acquisition of land plots and construction activity in 2010 compared to 2009. The net inflow for the year ended 31 December 2009 was the result of our strategic decision to use operating cash flows to decrease debt, to lower levels of construction during the economic downturn as well as to hold a greater level of cash on our balance sheet (which was largely directed at repaying debt in the subsequent period).

In 2010, we increased our rate of pre-sales and benefitted from a modest increase in revenue as compared with 2009. We also increased the rate of construction on our residential projects, in line with improving market conditions. These both had an impact on our working capital. The most significant differences in 2010 compared with 2009 in the changes in working capital were the following:

- A RUB 1,520 million decrease in inventories during the year ended 31 December 2010 compared to a larger decrease of RUB 2,594 million during the year ended 31 December 2009. Inventories decreased as a result of a drop in commercial premises under construction of RUB 656 million to RUB 4,129 million, which was in line with our decision to cease construction of stand-alone commercial premises. Inventories also decreased because of a drop in built-in premises (which includes both premises in stand-alone commercial buildings and built-in premises) of RUB 222 million to RUB 2,484 million, which was due to a greater number of commercial premises sales being recognised in 2010. Inventories also decreased because of a drop in flats (both completed and under construction) of RUB 260 million to RUB 19,568 million. This modest decrease was due to the effect of those sales of flats being recognised in 2010 being offset by an increase in flats under construction, which was attributable to increased levels of residential construction as market conditions improved. Inventories decreased during 2009 as a result of a drop in residential and non-residential inventory (both completed and under construction) of RUB 2,343 million to a total of RUB 27,319 million. This drop was due to the increased number

of property sales recognised by us during 2009 and the lower level of construction undertaken during 2009, in light of the economic conditions at the time.

- A RUB 6,659 million decrease in accounts payable during the year ended 31 December 2010 compared to a smaller decrease of RUB 6,233 million during the year ended 31 December 2009. The larger decrease in accounts payable in 2010 compared to 2009 was mainly because of a decrease in advances from customers, primarily attributable to an increase in the proportion of our sales of completed objects (such as commissioned flats and parking places) that do not result in advances from customers, as opposed to pre-sales.
- A RUB 201 million increase in accounts receivable during the year ended 31 December 2010 compared to a larger increase of RUB 826 million during the year ended 31 December 2009. The smaller increase in accounts receivable in 2010 compared to 2009 was because of the rate of revenue growth slowing down in 2010 as compared with the prior period under review.
- Total provisions as at 31 December 2010 included a decrease of RUB 736 million from RUB 2,006 million as at 31 December 2009 to RUB 1,270 million as at 31 December 2010, as compared to an increase of RUB 420 million from RUB 1,586 million as at 31 December 2008 to RUB 2,006 million as at 31 December 2009. The decrease was mainly a consequence of a decrease in the provisions made for deferred works by us. We take these provisions in respect of additional works (like landscaping) that the State Commission requires us to undertake after the related property has been commissioned. We are typically required to do these works within a few months of registration. In 2010, we used more of these provisions than in 2009, because of the increased number of properties commissioned with the State Commission. In 2010, we made a lower level of provisions than in 2009; this was consistent with us having commissioned fewer square metres of flats in 2010 than 2009.
- Income tax paid was RUB 1,083 million in 2010, an increase of RUB 579 million, or 114.9%, compared to RUB 504 million in 2009. The difference was principally a function of more revenue being recognised under Russian GAAP in 2010 compared with 2009.
- Interest paid was RUB 814 million in 2010, a decrease of RUB 11 million, or 1.3%, compared to RUB 825 million in 2009. The decrease in 2010 was primarily attributable to lower levels of debt during 2010 as compared to 2009.

Cash flows utilised by investing activities amounted to RUB 555 million in the year ended 31 December 2010 compared to RUB 155 million in the year ended 31 December 2009. This change included a cash outflow of RUB 329 million in 2010 for the purpose of purchasing property, plant and equipment as compared to a cash outflow of RUB 221 million in 2009. This increase was primarily a result of acquisition of fixed assets related to the expansion of our Moscow operations. In the year ended 31 December 2010, loans given were RUB 106 million compared RUB 266 million in the year ended 31 December 2009. The decrease related primarily to loans to Severnaya Vysota I K being eliminated on consolidation after acquisition of this entity. In the year ended 31 December 2010, acquisition of subsidiaries, net of cash acquired was RUB 9 million, which was primarily attributable to the purchase of additional interests in our construction subsidiary from our controlling shareholder. See *“Related Party Transactions”*.

Cash flows relating to financing activities amounted to a net inflow of RUB 2,039 million in the year ended 31 December 2010 as compared to a net outflow of RUB 1,021 million in the year ended 31 December 2009. This was mainly a result of an increase in proceeds from borrowings of RUB 10,794 million in 2010 as compared to a smaller increase of RUB 8,649 million in 2009. Proceeds from borrowings increased primarily because of our issuance of LPNs in November 2010.

Year ended 31 December 2009 compared to the year ended 31 December 2008

Cash flows from operating activities amounted to a net inflow of RUB 2,180 million for the year ended 31 December 2009, compared to a smaller inflow of RUB 659 million for the year ended 31 December 2008. This change was primarily a result of our strategic decision to use operating cash flows to decrease debt, to lower levels of construction during the economic downturn as well as to hold a greater level of cash on our balance sheet (which was largely directed at repaying debt in the subsequent period).

The most significant differences in 2009 compared to 2008 in the changes in working capital were the following:

- A RUB 2,594 million decrease in inventories during the year ended 31 December 2009 compared to an increase of RUB 13,181 million during the year ended 31 December 2008. Inventories decreased during 2009 mainly as a result of a drop in residential and non-residential inventory (both completed and under construction) of RUB 2,343 million to a total of RUB 27,319 million. This drop was due to the increased number of property sales recognised by us during 2009 and the lower level of construction undertaken during 2009, in light of economic

conditions at the time. Inventories increased in 2008 mainly as a result of an increase in flats (both completed and under construction) of RUB 10,027 million to RUB 21,663 million. This increase was due to increased levels of construction. The increase in inventories during the year ended 31 December 2008 included an increase in residential and non-residential properties (both completed and under construction) from RUB 15,520 million as at 1 January 2008 to RUB 29,662 million as at 31 December 2008. Inventories in the year ended 31 December 2009 decreased mainly as a result of a drop in residential and non-residential inventory (both completed and under construction) as compared to 2008 of RUB 2,343 million to a total of RUB 27,319 million. This drop was due to the increased number of property sales recognised by us during 2009 due to completion and acceptance of such properties by the State Commission and the lower level of construction undertaken during 2009, in light of the economic conditions at the time.

- A decrease in accounts payable during the year ended 31 December 2009 of RUB 6,233 million compared to an increase of RUB 11,845 million during the year ended 31 December 2008. The change in accounts payables in each of 2009 and 2008 was effectively a function of the receipt of cash from pre-sales of flats less the revenue recognised as a consequence of the completion of construction and delivery of real estate units to our customers. In 2009, while cash collections fell compared to 2008 (largely because of the economic downturn), revenue grew by substantially more (because of the recognition of revenue from flats constructed and sold when the economy was stronger but not commissioned until 2009). In contrast, in 2008, cash collections outstripped revenue.
- An increase in accounts receivable during the year ended 31 December 2009 of RUB 826 million compared to a larger increase of RUB 1,061 million during the year ended 31 December 2008. The largest differences between 2009 and 2008 were in relation to changes in trade receivables and changes in VAT recoverable. The change in trade receivables in each of 2009 and 2008 was effectively a function of the amount of cash still owed by customers once the revenue from sales of flats to them had been recognised. The change in 2009 was RUB 531 million, compared to a change of RUB 52 million in 2008. This was a result of a greater amount of revenue being recognised in 2009 and more flexible payment terms for customers, compared to 2008.
- Income tax paid was RUB 504 million in 2009, a decrease of RUB 182 million, or 26.5% compared to RUB 686 million in 2008. The difference was principally a function of the Russian GAAP income of each of our Russian subsidiaries.
- Interest paid was RUB 825 million in 2009, an increase of RUB 119 million, or 16.9% compared to RUB 706 million in 2008. The increase in 2009 was because average interest rates on our debt were higher in 2009 than in 2008.
- Total provisions as at 31 December 2009 included an increase of RUB 420 million from RUB 1,586 million as at 1 January 2009 to RUB 2,006 million as at 31 December 2009, as compared to a larger increase of RUB 1,199 million from RUB 387 million as at 1 January 2008 to RUB 1,586 million as at 31 December 2008. This increase was mainly a consequence of an increase in the total provisions made for deferred works by us. We take these provisions in respect of additional works (like landscaping) that the State Commission requires us to undertake after the related property has been commissioned. We are typically required to do these works within a few months of commissioning. In 2008, we made a greater provision than in 2009; this was consistent with us having commissioned more square metres of flats in 2008 than 2009. We use these provisions as we complete these works. In 2009, we used substantially more of these provisions than in 2008.

Cash flows utilised by investing activities amounted to RUB 378 million in the year ended 31 December 2008 compared to RUB 155 million in the year ended 31 December 2009. This change included a cash outflow of RUB 221 million in 2009 for the purpose of purchasing property, plant and equipment as compared to RUB 446 million in 2008. This decrease was primarily a result of our decision to conserve more cash during the economic downturn. In the year ended 31 December 2008, loans given were RUB 84 million compared to RUB 266 million in the year ended 31 December 2009. The increase related primarily to a greater amount of money being loaned in 2009 to LLC Severnaya Vysota I K (which we ultimately acquired) than in 2008.

Cash flows relating to financing activities amounted to a net outflow of RUB 1,021 million in the year ended 31 December 2009 compared to a net inflow of RUB 1,143 million in the year ended 31 December 2008. Primarily, this was as a result of the issuance of 117,647 Ordinary Shares (or 15% of our then share capital) to the Baring Vostok Fund in March 2008, which helped to finance the acquisition of the Emerald Hills project, partially offset by a decrease in our borrowings on a net basis of RUB 776 million. In addition, in 2009, we decreased our borrowings still further by RUB 989 million. In each case, this was in line with our strategy to use cash to reduce our debt levels. In 2009, the proceeds from borrowings were largely in the form of long-term debt, which replaced some of the short-term debt we repaid.

Liquidity

Cash and cash equivalents comprise cash balances, petty cash, cash in transit and call deposits with original maturities of less than 90 days. Bank overdrafts that are repayable on demand and form an integral part of our cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

As of 31 December 2010, 31 December 2009 and 31 December 2008, we had cash and cash equivalents in the amount of RUB 3,636 million, RUB 3,416 million and RUB 2,378 million, respectively.

	As at 31 December		
	2008	2009	2010
	mln RUB		
Petty cash	2	4	3
Cash in banks (RUB denominated)	315	492	376
Cash in banks (USD denominated)	7	21	149
Cash in banks (EUR denominated)	—	—	169
Cash in transit	31	17	29
Short-term deposits (maturities of 90 days or fewer)	<u>2,023</u>	<u>2,882</u>	<u>2,910</u>
Cash and cash equivalents in the statement of financial position	<u>2,378</u>	<u>3,416</u>	<u>3,636</u>

Capital Resources

As well as cash flows from pre-sales discussed above, we rely on our credit facilities and bond debt as capital resources. Our major credit agreements and outstanding bonds are described below.

Major Credit Agreements

The availability of debt and equity financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We have pledged certain items of property, plant, equipment and inventories in connection with our borrowings. We cannot guarantee that we will be able to continue to obtain debt financing in the future.

Set out below is a description of our most significant borrowings by our major subsidiary SSMO LenSpetsSMU as of 31 December 2010.

Credit facility agreements with Alfabank. On 27 November 2009, we entered into a credit facility agreement with Alfabank allowing borrowings of up to USD 15 million for the purpose of financing working capital. The agreement is subject to a number of restrictive covenants including, for example, restrictions on transfer of assets exceeding 25% of the borrower's net asset value without Alfabank's consent. The agreement has a maturity date of 31 December 2012. As of 31 December 2010, we had no outstanding indebtedness under this credit facility. The interest rate shall be set out in the Supplementary agreement concluded in connection with each respective tranche. The guarantors under the facility shall be TSUN, MFTC and Aktiv. In addition, any loan under the facility shall be secured by a mortgage over real property owned by Aktiv.

On 6 August 2010, we entered into a credit line agreement with Alfabank, allowing borrowings of up to EUR 39 million. The purpose of the loan was to secure coverage for the letters of credit opened upon the order of SSMO LenSpetsSMU in favour of LLC Budostal-3 Export for settlement under the General contractor agreement dated 1 July 2010 and for the payment of commission fees to export credit agency Kuke for insuring of the credit in the funding banks, IKB Deutsche Industriebank AG and Landesbank Berlin AG. The agreement is subject to a number of early repayment events, for example on unpermitted alienation of property and worsening of the borrower's financial condition. The agreement has a maturity date of 1 December 2014. As of 31 December 2010, the total amount outstanding under the agreement was EUR 9.25 million. The loan bears interest for the period from disbursement of credit until first payment for the letters of credit at a rate of 3.25% *per annum*, and for the period from the first payment at EURIBOR + 5.25% *per annum*. However, the effective interest rate as of 31 December 2010 was EURIBOR+7% because of additional fees related to obtaining and maintaining this facility. The guarantors under the facility are TSUN, Aktiv, Zatonkoye. In addition, the loan is secured by a mortgage over real property owned by Aktiv and SSMO LenSpetsSMU.

Credit line agreement with GLOBEX. On 29 September 2010, we entered into a revolving credit line agreement with GLOBEX, allowing borrowings of up to USD 20 million for financing of business activities of the lender that are stipulated in its charter, in particular, construction of real property. The loan is subject to a number of early repayment events including, for example, on any unpermitted pledge of the borrower's property and on

unauthorised alienation of its real property. The loan has a maturity date of 28 September 2013. As of 31 December 2010, we had not drawn funds under this credit facility. The loan bears a fixed interest rate of 9.5% *per annum*. The interest rate can be increased by 1% by the bank if we fail to maintain the stipulated quarterly turnover on the bank account. The guarantors under the credit line agreement shall be TSUN, Aktiv and Management Company Etalon.

Credit line agreement with Bank Zenit. On 29 December 2010, we entered into a credit line agreement with Bank Zenit, allowing borrowings of up to RUB 600 million. The purpose of the loan was financing of business activities. The agreement has a maturity date of 26 December 2014. As of 31 December 2010, the total amount outstanding under the agreement was RUB 600 million. The loan bears a fixed interest rate of 9.9% *per annum*. The guarantors under the facility are TSUN, Aktiv, MFTC.

Loan participation notes of North Star B.V. On 15 November 2010, North Star B.V. issued loan participation notes in the total amount of USD 150 million, secured by the underlying loan agreement between North Star B.V., as the lender, and SSMO LenSpetsSMU, as the borrower, dated 1 November 2010. The notes have a maturity date of 9 November 2015. As of 31 December 2010, the total amount outstanding under the notes was USD 150 million. The notes bear a fixed interest rate of 9.75% *per annum*. The guarantors under the underlying loan agreement are TSUN, Aktiv and MFTC.

Credit facility agreement with Raiffeisenbank. On 7 April 2010 we entered into a credit facility agreement with Raiffeisenbank allowing borrowings of up to USD 10 million for general corporate purposes. The agreement is subject to a number of covenants including, for example, the requirements to maintain a debt/EBITDA ratio of not lower than 4.0, and an EBITDA/interest ratio of not lower than 2.5, as well as an obligation to maintain minimum turnover of not less than 50% of the amount outstanding under the agreement. In addition, the loan is subject to a number of early repayment events, including on any delay in repayment of our obligations to third parties which could influence our ability to perform our obligations under the agreement, and on the disposal of property constituting more than 50% of our assets. The agreement has a maturity date of 30 April 2012. As of 31 December 2010, we had no outstanding indebtedness under this credit facility. The loan bears a fixed interest rate of 10.4% *per annum*. The guarantor under the facility is MFTC.

Bonds

RUB 2 billion three-year bonds. On 23 December 2009 our subsidiary SSMO LenSpetsSMU issued bonds in the total amount of RUB 2 billion. The bonds are governed by Russian law, circulated in the Russian debt securities market and traded on list B of MICEX. The bonds have a maturity date of 7 December 2012. The bonds bear a fixed interest rate of 16% *per annum*. The coupon under the bonds is payable on a quarterly basis. As of 31 December 2010, the total amount outstanding under the bonds was RUB 1.6 billion. The guarantor under the bonds is TSUN.

RUB 2 billion three-year bonds. On 27 May 2010, our subsidiary SSMO LenSpetsSMU issued bonds in the total amount of RUB 2 billion. The bonds are governed by Russian law, circulated in the Russian debt securities market and traded on list B of MICEX. The bonds have a maturity date of 23 May 2013. The bonds bear a fixed interest rate of 14.5% *per annum*. The coupon under the bonds is payable on a quarterly basis. As of 31 December 2010, the total amount outstanding under the bonds was RUB 2 billion.

Loans and Borrowings

As of 31 December 2010, we had total loans and borrowings of approximately RUB 8,126 million, mainly comprising unsecured bonds of RUB 3,612 million, unsecured loans and LPNs of approximately RUB 3,484 million, and long-term secured bank loans of approximately RUB 423 million.

We believe that no default is continuing that could allow our creditors to declare indebtedness owed to them immediately due and payable under any of our material credit agreements.

As of 31 December 2010, 31 December 2009 and 31 December 2008, our loans and borrowings were comprised of the following:

	Currency	Nominal interest rate	Outstanding 31 Dec 2008	Outstanding 31 Dec 2009	Outstanding 31 Dec 2010	Year of maturity
mln RUB, except interest rates						
Secured bank loans						
Secured bank loan	USD	12%	—	139	—	2010
Secured bank loan	USD	11.6%	—	316	—	2010
Secured bank loan	USD	14%	—	73	—	2010
Secured bank loan	USD	9.5%	162	—	—	2011
Secured bank loan	USD	12.5%	—	—	49	2011

	<u>Currency</u>	<u>Nominal interest rate</u>	<u>Outstanding 31 Dec 2008</u>	<u>Outstanding 31 Dec 2009</u>	<u>Outstanding 31 Dec 2010</u>	<u>Year of maturity</u>
mln RUB, except interest rates						
Secured bank loan	EUR	EURIBOR +7.00%	—	—	374	2014
Unsecured bank loans						
Unsecured bank loan	USD	9.75%, 12%	2,521	729	—	2010
Unsecured bank loan	USD	10.5%	471	194	—	2010
Unsecured bank loan	USD	12%, 13%, 14%	1,273	1,041	—	2010
Unsecured bank loan	USD	11.75%	59	—	—	2009
Unsecured bank loan	RUB	13%, 15%	168	—	—	2009
Unsecured bank loan	RUB	9.90%	—	—	600	2014
Unsecured bank loan	USD	11.25%	441	—	—	2009
Unsecured bank loan	USD	10.79%, 11.09%, 11.39%	1,031	—	—	2009
Unsecured bank loan	USD	9.75%	—	—	3,484	2015
Secured loans — other parties						
Secured loan from other party	USD	18.11%	—	669	—	2010
Secured loan from other party	USD	18.72%	—	430	—	2010
Secured loan from other party	USD	19.19%	—	61	—	2010
Secured loan from other party	RUB	0.50%	—	—	7	2011
Unsecured bond issues						
Unsecured bonds	RUB	16%	—	1,582	1,595	2012
Unsecured bonds	RUB	14.5%	—	—	2,017	2013
Unsecured bonds	RUB	11.69%, 11.44%, 11.19%, 10.94%, 11.75%	610	610	—	2010
Finance leases						
Finance lease	EUR	8.79% - 9.77%	—	432	124	2012-2013
Finance leases	USD	24.76%	—	50	—	2012
Finance leases	RUB	17.71%	5	3	4	2010-2012
Total loans and borrowings, non- current and current	<u>—</u>	<u>—</u>	<u>6,741</u>	<u>6,329</u>	<u>8,254</u>	<u>—</u>

As at 31 December 2010, our secured loans were secured by pledge of property, plant and equipment with a carrying value of RUB 88 million and inventory with a carrying value of RUB 100 million.

Capital Requirements

We expect to have significant ongoing liquidity and capital requirements to maintain current operation levels and the pipeline of projects for future development, which requires continued investment in new properties and development projects in our target market segments.

Cash outflows for acquisition of property, plant and equipment for each of the years ended 31 December 2008, 2009 and 2010 amounted to the following:

	<u>For the year ended 31 December</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
mln RUB			
Acquisition of property, plant and equipment	446	221	329

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We did not hold or issue derivative or other financial instruments for trading purposes as of 31 December 2010.

Foreign Exchange Risk

Our presentation and functional currency is the Russian Rouble. The Rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See “*Exchange rate information.*”

We are exposed to currency risk on borrowings denominated in US dollars, on finance lease liabilities denominated in euro and on cash and cash equivalents denominated in euro.

The following table sets out the average exchange rate for the periods under review.

	For the year ended December 31		
	2008	2009	2010
Average Exchange Rate (<i>RUB per USD 1.00</i>)	24.86	31.72	30.37
Average Exchange Rate (<i>RUB per EUR 1.00</i>)	36.60	44.34	40.22

For the years ended 31 December 2008, 2009 and 2010, respectively, 88%, 62% and 43% of our loans and borrowings were denominated in U.S. dollars. For the years ended 31 December 2008, 2009 and 2010, respectively, 0%, 10% and 0% of our finance lease liabilities were denominated in U.S. dollars. For the years ended 31 December 2008, 2009 and 2010, respectively, 4.3%, 3.1% and 41.3% of our cash and cash equivalents were denominated in U.S. dollars.

For the years ended 31 December 2008, 2009 and 2010, respectively, 0%, 89% and 97% of our finance lease liabilities were denominated in euro. For the years ended 31 December 2008, 2009 and 2010, respectively, 23%, 17.3% and 10.6% of our cash and cash equivalents were denominated in euro.

The depreciation of the Rouble against the U.S. dollar or the euro would result in a negative effect on our financial position, as demonstrated through an increase of the Rouble equivalent of our borrowings and associated costs denominated in the U.S. dollars.

A hypothetical, instantaneous and simultaneous 10% appreciation of the U.S. dollar against the Rouble as of 31 December 2008, 2009 and 2010, respectively, would have resulted in a decrease of RUB 586 million, RUB 360 million and RUB 203 million in our equity capital and profit and loss for the relevant period. A hypothetical, instantaneous and simultaneous 10% appreciation of the euro against the Rouble as of 31 December 2008, 2009 and 2010, respectively, would have resulted in an increase of RUB 55 million, RUB 16 million and a decrease of RUB 11 million in our equity capital and profit and loss for the relevant period.

Our policy is not to use foreign exchange hedges to manage our foreign exchange risk. We perform foreign currency exchange rate sensitivity analysis on a yearly basis. For an analysis of such results, see Note 26(i) to our Consolidated Financial Statements, included in this prospectus.

Interest Rate Risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact our financial results. Our interest rate risk arises from our loans and borrowings. The terms of our loans are limited to fixed interest rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Profile

The following table summarises the interest rate profile of the Company's interest-bearing financial instruments as at 31 December 2008, 2009 and 2010:

	For the year ended 31 December		
	2008	2009	2010
	mln RUB		
Fixed rate interest-bearing instruments:			
Financial assets	2,403	4,030	4,028
Financial liabilities	(6,741)	(6,329)	(7,880)
	<u>(4,338)</u>	<u>(2,299)</u>	<u>(3,852)</u>
Variable rate interest-bearing instruments:			
Financial liabilities	—	—	(374)
Net amount	<u>(4,338)</u>	<u>(2,299)</u>	<u>(4,226)</u>

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 for the years ended 31 December 2009 and 2010. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
	mln RUB			
2009				
Variable rate instruments	—	—	—	—
Cash flow sensitivity (net)	—	—	—	—
2010				
Variable rate instruments	(4)	4	(4)	4
Cash flow sensitivity (net)	(4)	4	(4)	4

Liquidity Risk

Liquidity risk is the risk that we will not be able to settle all liabilities as they become due. Our approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation. Our liquidity in the future will primarily depend on our ability to maintain adequate cash flows from operations to meet our debt obligations as they become due and on our ability to obtain adequate external financing to meet our committed future capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including but not limited to, fluctuations in the price of residential property in our key markets, decreased demand for residential property, or increased competition. Our ability to obtain external financing depends on numerous factors, including but not limited to our financial performance and creditworthiness as well as our relationships with lenders.

Credit Risk

Credit risk is the risk of financial loss to the Company 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 to cash and cash equivalents and deposits with banks is managed by placing funds primarily in the banks listed in Note 20 to the Consolidated Financial Statements.

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 Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are applied.

Trade and other receivables

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. We have no customers accounting individually for more than 10% of our balance of trade and other receivables as at 31 December 2010.

We establish an allowance for impairment that represents our 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.

Exposure to credit risk

The carrying amount of our financial assets represents our maximum credit exposure. The maximum exposure to credit risk as at 31 December 2008, 2009 and 2010 was:

	<u>Carrying amount</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	mln RUB		
Loans and receivables (excluding taxes receivable and advances paid to customers)	1,329	2,011	2,124
Cash and cash equivalents	<u>2,378</u>	<u>3,416</u>	<u>3,636</u>
	<u>3,707</u>	<u>5,427</u>	<u>5,760</u>

The maximum exposure to credit risk for trade receivables as at 31 December 2010 by geographic region is the St. Petersburg region.

The maximum exposure to credit risk for trade receivables as at 31 December 2010 by customer type is from our industrial customers, reported in the Construction Services segment.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those policies that require the application of our management's most challenging, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgements and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below, which have been consistently applied in the preparation of the audited Consolidated Financial Statements.

Recognition of 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.

We define the moment of transfer of risks and rewards as the date when the buyer signs the act of acceptance of the property. Before that, the respective building has to be approved by the State Commission for acceptance of finished buildings.

Revenue recognition in relation to construction contracts

For accounting purposes we distinguish between two different types of construction contracts:

- Contracts for the provision of construction services

- 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. Revenue is recognised when the customer signs the act of acceptance of the construction service.

For the second type of contracts the allocation of contract revenue and contract costs to the different accounting periods in which construction work is performed is required. 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.

We recognise 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.

Basis of consolidation of special purpose entities

We have established a number of special purpose entities ("SPE"s) for trading and investment purposes. We do 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 us, we conclude that we control the SPE. SPEs controlled by us are established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in our 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.

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.

Warranties

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

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.

New Accounting Pronouncements

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2010)* introduces 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 is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- 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 2013. 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 remaining parts of the standard are expected to be issued during the first half of 2011. 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.
- Amendments to IFRIC 14: *IAS 19 — The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- 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 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

INDUSTRY

Set out below is a discussion of the macroeconomic environment in Russia and the industry conditions in each of the markets in which we operate. All data referenced below has been sourced from publicly available information. While we have accurately extracted this data, it has not been independently verified by the Company or the Underwriters.

MACROECONOMIC AND DEMOGRAPHIC OVERVIEW

Russia's economy is heavily dependent on oil prices. According to British Petroleum and Rosstat, Russia accounted for approximately 13% and 21% of global crude oil and natural gas exports in 2009, respectively, and the Russian national oil and gas sector accounted for approximately 17% of total Russian GDP in 2009, according to the Russian Ministry of Finance. This fact makes the Russian economy particularly vulnerable to fluctuations in international prices of hydrocarbons. In the second half of 2008, the prices of oil and gas decreased significantly as a result of the economic downturn. (Source: Bloomberg). Most of Russia's industries, including the real estate sector, were negatively affected. During the period from 2000 to 2008, the Russian economy experienced solid economic growth, with annual GDP real growth rates ranging from 4.7% to 10.0% (Source: Rosstat). Apart from high oil prices, economic growth in Russia between 2000 and 2008 was stimulated by inflows of foreign investment, including both direct investments and foreign corporate loans. Russian housing demand was also driven by rapid development of mortgage lending. However, in 2009, real GDP in Russia decreased by 7.9% (Source: Rosstat), primarily as a result of the economic downturn.

The following table sets forth certain macroeconomic indicators for the periods indicated.

	Year				
	2006	2007	2008	2009	2010
Real GDP growth, year-on-year (%) ⁽¹⁾	8.1	8.6	5.2	(7.9)	4.0
Real disposable income growth, year-on-year (%) ⁽¹⁾	13.5	12.1	2.3	2.1	4.1
CPI, end of period year-on-year (%) ⁽¹⁾	9.0	11.9	13.3	8.8	6.9
Fixed investments growth, year-on-year (%) ⁽¹⁾	17.7	22.7	9.8	(16.2)	6.0
Average price of URALS oil (USD/barrel) ⁽³⁾	61.2	69.7	95.1	61.4	78.2
Foreign capital inflow (TIC) (bln USD) ⁽²⁾	41.4	81.7	(133.9)	(56.9)	(38.3)
RUB/USD exchange rate (end of period) ⁽²⁾	26.33	24.55	29.38	30.24	30.48
Federal budget balance (% of GDP) ⁽⁴⁾	7.5	5.4	4.1	(5.9)	(4.6)

Source:

(1) Rosstat.

(2) CBR.

(3) Datastream (average of the price per barrel of Urals Northwest Europe and Urals Mediterranean over the period indicated).

(4) EIU.

The Rouble lost more than 30% of its value against the U.S. dollar between 30 August 2008 and 19 February 2009 (Source: CBR), and unemployment levels grew significantly during the recent economic downturn, particularly in cities dependent on a single employer. In 2009, oil prices began to rise again, and the Russian economy, along with the global economy, started to recover in the third quarter of 2009. According to Rosstat, in 2010, the Russian economy experienced growth in real GDP of 4.0%. The growth in GDP was accompanied by a slight decrease in inflation and supported an increase in real disposable income.

The following table sets forth certain quarterly macroeconomic indicators for the periods indicated.

	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>	<u>Q3 2010</u>	<u>Q4 2010</u>
Real GDP growth, year-on-year (%) ⁽¹⁾	9.1	7.7	6.4	(1.1)	(9.3)	(11.0)	(8.6)	(2.9)	3.1	5.2	2.7	4.0
Real disposable income growth, year-on-year (%) ⁽¹⁾	7.8	6.6	6.9	(11.6)	(0.1)	(1.0)	(4.9)	7.6	7.4	5.3	4.4	1.9
CPI, end of period year-on-year (%) ⁽¹⁾	13.3	15.1	15.0	13.3	14.0	11.9	10.7	8.8	6.5	5.8	6.9	6.9
Fixed investments growth, year-on-year (%) ⁽¹⁾	23.6	17.4	11.7	(2.3)	(17.3)	(22.8)	(18.2)	(9.4)	(4.1)	5.3	9.4	6.0
Average price of URALS oil (USD/barrel) ⁽⁴⁾	93.0	118.1	113.5	55.3	44.1	58.6	68.0	74.3	75.4	76.6	75.9	85.2
Foreign capital inflow/(outflow) (TIC) (bln USD) ⁽²⁾	(24.4)	40.0	(19.3)	(130.3)	(35.0)	3.4	(33.8)	8.5	(14.7)	2.8	(3.7)	40.1
RUB/USD exchange rate (end of period) ⁽²⁾	23.52	23.46	25.25	29.38	34.01	31.29	30.09	30.24	29.36	31.20	30.40	30.48
Federal budget balance (% of GDP) ⁽³⁾	6.7	7.6	10.2	(8.0)	(0.4)	(7.4)	(5.8)	(8.9)	(2.5)	(1.3)	(1.0)	(3.6)

Source:

(1) Rosstat.

(2) CBR.

(3) EIU.

(4) Datastream (average price per barrel of Urals Northwest Europe and Urals Mediterranean over the period indicated).

During the economic downturn, the current account surplus of Russia's balance of payments shrank by a factor of 2.1 to USD 49.4 billion (*Rosstat, as of December 2009*). In 2010, however, higher crude oil prices contributed to strengthening Russia's balance of payment and, as of 1 January 2011, the CBR estimated the current account surplus to be USD 72.6 billion, an increase of 50% as compared to 1 January 2010. As of 7 January 2011, the CBR reported USD 482 billion of international reserves. In addition, Russia's federal budget deficit decreased from 5.9% of GDP in 2009 to 4.6% in 2010, according to EIU estimates.

As of 1 January 2010, Russia had a population of 142.9 million people. (*Source: Rosstat*). In recent years, the Russian population has been decreasing. Over the last decade, the size of Russia's population has been affected by relatively high mortality rates and relatively low birth rates, which, although partially offset by immigration, primarily from CIS countries, has resulted in a net decline in population since 1995. In order to mitigate this trend, the Government introduced various programmes aimed at population growth. As a result of these programmes, Russia experienced a notable upturn in the annual birth rate from 9.7 births per 1,000 people in 2002 to approximately 12.6 births per 1,000 people in 2010, which was further supported by a decline in the annual mortality rate from 16.2 mortalities per 1,000 people in 2002 to approximately 14.3 mortalities per 1,000 people in 2010. (*Source: Rosstat*). These programmes are continuing and include, for example, subsidies of RUB 624 billion in the 2010 Government budget for multiple-child families (known as a maternity capital programme), child allowances and other programmes, and RUB 145 billion for a national health programme (known as "Zdorovye").

The following table sets forth Russian birth rate and mortality rate data for the periods indicated.

	<u>Year</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010E</u>
Number of births per 1,000 people	10.4	11.3	12.1	12.4	12.6
Number of mortalities per 1,000 people	15.2	14.6	14.6	14.2	14.3

Source: Rosstat

RUSSIAN RESIDENTIAL REAL ESTATE MARKET OVERVIEW

The demand for residential housing in Russia is cyclical and strongly influenced by general macroeconomic trends, as was evident during the economic downturn referred to above.

Growth of residential construction over the period from 2002 to 2008 in Russia was primarily driven by a general shortage of housing, favourable macroeconomic conditions and the development of mortgage lending. The shortage of housing also led the Government to implement affordable housing programmes, which remain a priority for the Government.

The following table sets forth data concerning the real growth in construction volume and residential real estate completions in Russia for the periods indicated.

	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010E
Growth in construction volume ⁽¹⁾ (year-on-year, %)	2.9	12.8	10.1	13.2	18.1	18.2	12.8	13.2	0.6
Residential completions ⁽²⁾ (millions of square metres)	33.8	36.4	41.0	43.6	50.6	61.2	64.1	59.9	58.1
Growth (year-on-year, %)		7.7	12.6	6.3	16.1	20.9	4.7	(6.7)	(28.0)
Residential completions (thousands of flats)	396.4	426.9	477.4	515.3	608.6	722.5	768.1	701.3	714.1
Growth (year-on-year, %)		7.7	11.8	7.9	18.1	18.7	6.3	(8.7)	1.9

Source: Rosstat

(1) Growth in the total value of construction works, calculated using nominal prices.

(2) "Completions" refers to a building that has been constructed, for which the operational permit has been obtained and which is ready for residents to move in.

The recent economic downturn had an adverse impact on the Russian residential real estate sector, including lower demand as a result of an overall reduction in disposable income of the general population.

In addition, the economic downturn limited the availability of mortgage financing for prospective real estate purchasers.

The following table sets forth the volume of mortgage lending and the weighted-average interest rate on Rouble-denominated loans for the periods indicated.

	Year					
	2005	2006	2007	2008	2009	2010
Volume of mortgage lending (RUB billion)	56.3	263.6	556.5	655.8	152.5	379.4
Weighted-average interest rate on RUB-denominated loans (%)	14.9	13.7	12.6	12.9	14.3	13.1

Source: CBR.

After reaching a minimum of 12.5% in the first three months of 2008, the weighted-average Rouble-denominated interest rate on mortgages grew to 14.2% in January 2009 and reached a maximum of 14.9% in May 2009. (Source: CBR). In 2009, mortgage lending decreased by 6.7% compared to 2008 (Source: CBR), which resulted in a sharp decline in housing demand. As a result, the average selling price of residential real estate properties as well as the amount pre-sold through new sales contracts decreased significantly in the second half of 2008 and further declined in 2009. A decline in demand was accompanied by a fall in construction volumes, as set forth in the table above, which might also be expected to adversely affect the volume of residential real estate completions in the next two years.

Russian residential real estate market recovery

In the second half of 2009, the Russian economy, aided by higher oil prices and stronger global commodity demand, began to recover. In conjunction with a slight decrease in inflation and an increase in real disposable income, this led to a gradual recovery of the Russian real estate market.

The following table sets forth the real growth in construction volume and residential real estate completions for the periods indicated:

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Construction volume growth ⁽¹⁾ (year-on-year, %)	28.9	18.2	9.5	3.8	(16.6)	(16.6)	(14.5)	(7.7)	(11.1)	(3.3)	(1.1)	5.6
Residential completions (mln sq.m.)	10.2	11.5	13.5	28.9	10.4	11.2	13.4	24.8	9.6	12.0	11.4	25.1
Growth (year-on-year, %)	7.6	(1.2)	5.5	5.7	2.5	(2.8)	(2.2)	(13.6)	(8.3)	7.5	(14.1)	0.5

Source: Rosstat

(1) Growth in the total value of construction works calculated using nominal prices.

As a result of the supportive measures implemented by the Government and the overall signs of recovery in the economy, the volume of mortgage lending in Russia started to grow and the weighted-average interest rate started to fall in 2009, as shown in the following table:

	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>	<u>Q3 2010</u>
Volume of mortgage lending (<i>bln RUB</i>)	151	188	198	118	25	31	36	61	49	84	101
Quarter-to-quarter growth (%)	25.0	5.2	(40.3)	(79.0)	24.9	15.3	69.7	(19.5)	72.5	19.5	25.0
Weighted-average interest rate on RUB-denominated loans (%) ⁽¹⁾	12.4	12.5	12.7	12.9	14.4	14.6	14.6	14.3	13.6	13.5	13.4

Source: CBR

(1) Weighted-average interest rate from the beginning of the applicable year until the end of the period indicated.

The overall positive trend in the real estate market shown since the first quarter of 2009 was largely driven by a gradual recovery in the largest real estate markets — namely, the Moscow Metropolitan Area and St. Petersburg Metropolitan Area — which demonstrated the highest growth rates. These markets are described further in the sections below.

Russian residential real estate market growth fundamentals

Until the end of 2008, the rapid development of the Russian real estate market described above was predominantly driven by several fundamental factors that are likely to continue to support the market growth after the economic downturn. These factors are: obsolete existing housing stock, living space undersupply (in terms of residential space per capita), mortgage under-penetration and growth in disposable income.

Government-funded housing construction was widespread during the Soviet era but decreased dramatically after the breakup of the Soviet Union in the early 1990s. As a result, the existing Russian residential housing stock includes a substantial amount of aging or obsolete stock dating from the Soviet era. As of 31 December 2009, approximately 60% of the existing residential stock in Russia was estimated to be poorly maintained, while approximately 11% required an urgent major overhaul and approximately 9% required a full reconstruction. (Source: Russian Ministry of Industry and Trade).

According to Rosstat, at the end of December 2009, the total area of residential real estate stock in Russia was approximately 3.2 billion square metres, or approximately 22 square metres per capita. This is considerably lower than the average in developed European countries and in the United States, according to the UNECE.

According to Rosstat, the amount of annual investment by the Russian population in real estate assets increased by more than 14% over 2008 and 2009, reaching RUB 958 billion at the end of 2009 compared to RUB 834 billion at the end of 2007, partly as a result of growing disposable income. The EIU estimates that real personal disposable income in Russia will grow at an annual rate of 4.3% during each of the years from 2010 to 2014. Growth in disposable income, supported by further development of the Russian mortgage market, is likely to contribute to an increase in demand for residential real estate.

Government support

The Government has historically been and remains supportive of the country's residential real estate market by implementing various programmes to support demand for residential real estate and by actively financing affordable mass-market housing construction. This became particularly important during the economic downturn.

The mortgage market, as one of the key drivers of residential real estate demand, is supported by the Government through various direct and indirect measures. Direct measures include financing support given by the AHML, a state-controlled entity which provides additional funds to the mortgage market by purchasing mortgage loans from banks. Indirect measures include non-cash state guarantees for loans from the AHML provided to selected individuals and legal entities to refinance mortgage loans, guarantees for borrowings to modernise communal services as well as restructuring of mortgage loans (through its subsidiary OJSC Agency for Restructuring of Mortgage Loans).

The following table sets forth data concerning the mortgage market support given under the Government's affordable housing programme known as "Zhilische" for the periods indicated:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009F</u>	<u>2010F</u>
State guarantees for AHML borrowings, RUB million	14,000	16,000	28,000	36,000	44,000

Source: Federal programme "Zhilische" (latest revision dated 23 December 2009)

The Government plans to spend over RUB 4.5 billion, RUB 3.6 billion and RUB 3.5 billion in 2011, 2012 and 2013, respectively, on providing homes to specific categories of individuals under the programme “Zhilische” (*Source: Draft Russian Federal budget for 2011*).

During the recent economic downturn, the Government applied the following main anti-crisis measures to support the sector:

- *Purchase of flats with a high degree of completion certainty.* According to Russian press reports, for the period from the end of 2008 to August 2010, the Russian Government bought flats considered to have a high degree of completion certainty worth approximately RUB 40.0 billion.
- *State sub-contracting for construction of new residential housing for public employees, military personnel and disadvantaged families.* This measure had been used to support the construction industry before the recent economic downturn, but its volume was expanded in recent years, primarily by the Ministry of Defence. During 2008 and 2009, the Ministry of Defence spent approximately RUB 104 billion on sub-contracting and, according to the draft federal budget as of August 2010, had planned to spend approximately RUB 59 billion in 2010. (*Source: Federal Budget*)

According to draft budgets, the Russian Government plans to gradually reduce the total volume of state support of the construction industry in the coming years, falling from RUB 357 billion in 2011 to RUB 228 billion in 2012 and to RUB 101 billion in 2013.

In addition to state support at the federal level, regional authorities have implemented their own measures to facilitate demand in their local residential real estate markets.

Russian real estate market segmentation

The residential market in Russia can be divided into many different segments, including by quality of design, construction materials and technology, price range, geographical location, number of rooms and living space area. However, the most widely used system of segmentation for primary residential real estate is based on the quality of real estate and its price, splitting the market into the following three categories:

- *Economy (mass-market) class.* This segment includes standardised housing in the low-to-mid price range. Buildings in this segment are built to a standard design from prefabricated reinforced concrete panels and are inexpensive relative to other classes, as the costs of design, labour and materials are relatively low. The upper end of the economy class price segment, also known as “comfort class”, includes poured concrete buildings built to simplified designs. Poured concrete housing is of a higher quality than panel housing and allows for more flexible planning.
- *Middle (business) class.* This segment comprises standardised and customised housing in the mid-to-high price range, including brick and poured concrete buildings, often with underground parking, improved layouts and higher quality insulation. The high end of the middle class segment (referred to as “business plus”) includes new poured concrete buildings in prestigious locations (often in gated developments), made of high quality construction materials, with on-site security and underground parking.
- *Premium (elite) class.* This segment includes premium and super-premium (or “exclusive”) class housing in the high to very high price range. These buildings usually have fewer apartments in comparison to buildings in lower price segments. Situated in prime locations (often in a gated development), they generally have air-conditioning, a security system, telephone and internet lines, a modern interior and exterior design, and a garden. In contrast to the middle class segment, which is mainly primary, the premium class segment is dominated by secondary demand, making it relatively difficult to capture scalable growth in this segment.

THE MOSCOW METROPOLITAN AREA AND ST. PETERSBURG METROPOLITAN AREA RESIDENTIAL REAL ESTATE MARKETS OVERVIEW

Residential construction activity in the Moscow Metropolitan Area and St. Petersburg Metropolitan Area was relatively unaffected by the general decline in activity in Russia in the post-Soviet period from 1990 to 2000. As a result, other regions’ shares of the total national residential construction volume decreased from 89% in 1990 to 69% in 2004 and began to grow only in 2005. (*Source: Rosstat*).

In 2009, despite the economic downturn, growth in total residential completions was observed in many Russian regions. This is explained by the fact that many projects were started, financed and pre-sold before the economic downturn. However, in 2010 this trend turned negative, demonstrating the effect that the economic downturn has had on the construction industry. In Moscow, the level of total residential completions (by millions of square metres)

was 33.3% lower in 2010 compared to 2009, as indicated in the table below. Despite these adverse factors, residential completions in St. Petersburg continued to expand even in the first ten months of 2010.

The following table sets forth residential completion volumes by regions for the periods indicated:

	1990	1995	CAGR 1990-5	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR, 2000- 09	2010	Year- on- year change 2009- 2010
	mln sq. m., unless otherwise indicated															
Total residential completions																
in Russia	61.7	41.0	(7.8%)	30.3	31.7	33.8	36.4	41.0	43.6	50.6	61.2	64.1	59.9	7.9%	58.1	(2.8%)
Moscow	2.3	2.5	2.5%	3.3	3.7	4.3	4.4	4.6	4.6	4.8	4.8	3.3	2.7	(2.3%)	1.8	(33.3%)
Moscow region	2.4	2.4	(0.3%)	2.6	2.8	3.4	4.1	5.7	5.3	6.5	7.8	7.9	8.5	13.9%	7.7	(5.0%)
St. Petersburg	1.1	1.0	(1.0%)	1.1	1.1	1.2	1.8	2.0	2.3	2.4	2.6	3.2	2.6	10.3%	2.7	3.8%
Leningrad region	0.8	0.4	(11.1%)	0.4	0.4	0.4	0.4	0.5	0.5	0.7	0.8	0.9	1.0	11.4%	1.0	—

Source: Rosstat

In contrast to the volume of completions, the real growth in construction volume, which is an indicator of the construction activity in a period, decreased significantly in 2009. Although it recovered to some extent in the Moscow region and overall in Russia in 2010, the growth in construction volume continued to decrease in St. Petersburg and the Leningrad region.

The following table sets forth the real growth in construction volume in the Russian Federal Districts and selected regions for the periods indicated:

	2005	2006	2007	2008	2009	January 2010-11
	Percentage growth					
Russia	10.5	15.7	18.2	12.8	(16.0)	(1.1)
Central Federal District	5.3	11.3	9.4	0.9	(17.1)	(8.5)
Moscow	2.0	14.9	2.4	(1.8)	(19.1)	(15.9)
Moscow region	12.6	11.9	16.1	0.6	(24.5)	(9.6)
North-Western Federal District	(0.1)	32.5	1.8	(0.5)	(19.6)	(30.3)
St. Petersburg	(8.3)	35.6	21.6	2.0	(22.7)	(29.3)
Leningrad region	7.9	78.8	(8.9)	1.8	5.8	(43.0)

Source: Rosstat

As set forth in the table below, for the period from the fourth quarter of 2005 to the fourth quarter of 2009, average prices per square metre for primary residential real estate in Russia increased from USD 884 per square metre to USD 1,619 per square metre, representing a CAGR of 16.3% (Source: Rosstat). The Moscow region, the Leningrad region and St. Petersburg experienced the highest price inflation during the period from 2005 to 2009. However, due to the economic downturn, prices decreased significantly in 2009 (Source: Rosstat) before stabilising and then recovering slightly in the first half of 2010.

The following table sets forth the average primary residential market prices in U.S. dollar per square metre for the periods indicated:

	Q4 2005	Q4 2006	Q4 2007	Q4 2008	Q4 2009	CAGR 2005-2009	Q1 2010	Q2 2010	Q3 2010	Percentage increase, Q3 2010 compared to Q4 2009	
	USD per square metre, unless otherwise indicated										
Russia	884	1,362	1,926	1,926	1,619	16.3%	1,617	1,588	1,569	(3.1%)	
Central Federal District	1,211	1,799	2,523	2,570	2,113	14.9%	2,155	2,110	2,071	(2.0%)	
Moscow	2,034	3,332	4,605	4,667	4,452	21.6%	4,733	4,722	4,699	5.6%	
Moscow region	899	1,326	2,099	2,290	2,058	23.0%	2,068	1,986	1,973	(4.2%)	
North-Western Federal District	851	1,409	2,368	2,371	2,256	27.6%	1,885	1,852	1,834	(18.7%)	
St. Petersburg	1,092	1,710	3,256	3,254	3,059	29.4%	2,705	2,623	2,626	(14.1%)	
Leningrad region	636	861	1,244	1,743	1,784	29.4%	1,726	1,687	1,616	(9.4%)	

Source: Rosstat.

Based on the facts that 60% of households plan to improve living conditions (Source: Rosstat; Synovate Comcon) and 56% of consumers prefer to purchase residential real estate on the primary market (Source: Metrinfo), potential demand for middle class primary properties in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area

is estimated (using Rosstat methodology and data) to be approximately 622 thousand households compared to only approximately 2,000 middle class housing units commissioned during 1H2010 in these regions (Sources: *MIAN; SPb Realty*).

St. Petersburg Metropolitan Area overview

Despite the effects of the economic downturn, the St. Petersburg Metropolitan Area is one of the most dynamic residential real estate markets in Russia, based on the housing completions data below. According to Rosstat, income levels in the St. Petersburg Metropolitan Area were 15.0% higher in November 2010 compared to the same period in 2009. According to the St. Petersburg Mortgage Agency, mortgage lending increased by 57% CAGR based on the number of issued mortgage loans and 116% CAGR based on the total amount of issued mortgage loans, in each case from 2005 to 2008 in the St. Petersburg Metropolitan Area; however, mortgage lending decreased by 84% in the St. Petersburg Metropolitan Area during the course of 2009 as a result of the economic downturn.

As a result of the supportive measures implemented by the Government and overall signs of recovery in the residential real estate market, the volume of mortgage lending in the St. Petersburg Metropolitan Area started to recover in 2010, as shown in the table below.

	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Year-on- Year change Jan 10-11
	mln USD													
St. Petersburg total	2,402	2,413	2,443	2,424	2,334	2,308	2,383	2,332	2,363	2,346	2,303	2,388	2,466	2.7%
Denominated in RUB	1,635	1,639	1,675	1,679	1,631	1,600	1,654	1,648	1,670	1,676	1,647	1,710	1,795	9.8%
Denominated in foreign currency	767	773	768	745	703	708	729	684	693	670	656	677	671	(12.5%)

Source: CBR.

Note: Converted into USD from RUB with the CBR exchange rate end of period.

According to Rosstat, between 2002 and 2008, residential housing completions measured in million square metres increased by almost 2.7 times, while the CAGR for this period amounted to 18%, which is 1.6 times higher than the CAGR of residential construction in Russia as a whole over the period. In 2009, the completions of new housing in the St. Petersburg Metropolitan Area decreased by 0.6 million square metres, or almost 19%, compared to 2008, primarily as a result of the economic downturn. However, the 2010 volumes increase by 2.1%.

The table below illustrates the evolution of residential space in St. Petersburg for the periods indicated:

	2005	2006	2007	2008	2009	2010	Year-on- Year change 2009-10
Total residential space commissioned (<i>thousand sq. m.</i>)	2,273.0	2,376.0	2,637.0	3,212.0	2,603.0	2,657.0	2.1%
Total flats commissioned (<i>units</i>)	33,190.0	34,227.0	38,051.0	48,050.0	38,990.0	42,761.0	9.7%
Average residential space per capita (<i>sq. m.</i>)	21.9	22.4	23.1	23.5	23.9	na	na

Source: Rosstat

State budget funded construction of economy-class flats in the St. Petersburg Metropolitan Area, according to the Construction Committee of St. Petersburg, amounted to 640,000 square metres in 2009, or approximately 25% of total completions. However, since the Government allocates state budget funded flats to public employees, military personnel and socially disadvantaged groups, state budget funded completions do not have a substantial impact on demand for residential mass-market properties in the private market (as most people in the above-mentioned groups are unable to afford a flat in the private market).

New Housing Supply

The economic downturn forced developers to freeze a significant number of projects in 2008 to 2009, which caused a subsequent drop in supply. According to SPb Realty, supply of new flats available for sale declined by 3.5% in the second half of 2009 compared to the first half of 2009. The decline continued in the first half of 2010, when supply of business class properties dropped by 21.2% compared to the second half of 2009. However, during the second half of 2010 the supply of primary residential properties started to recover.

The table below sets forth the volume of new flats available for sale in the periods indicated in St. Petersburg.

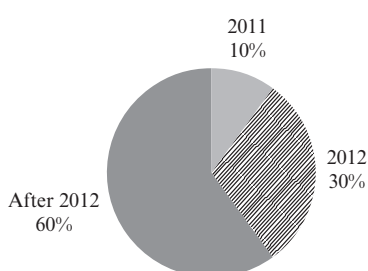
	Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008	Q4 2008	Q2 2009	Q4 2009	Q2 2010	Q4 2010	Year-on-Year change Q4 2009-10
	thousand sq. m.										
Total St. Petersburg	1,760.0	2,156.8	2,571.9	2,411.8	2,554.5	2,525.6	2,577.1	2,487.9	2,265.7	2,398.3	(3.6%)
Economy class	1,321.2	1,677.4	1,844.5	1,726.5	1,855.1	1,738.8	1,868.9	1,800.0	1,705.9	1,828.6	(1.6%)
Middle class	277.6	282.0	476.3	488.0	448.8	514.1	452.3	417.9	329.1	352.8	(15.6%)
Premium class	161.2	197.4	251.1	197.2	250.6	272.7	255.8	270.0	230.8	216.9	(19.7%)

Source: SPb Realty.

The economic downturn caused a proportional increase in cheaper economy class property construction and supply. Economy class flats accounted for 76.2% of the total supply of new flats at the end of 2010 compared to 68.8% at the end of 2008. As the graph below shows, brick/concrete constructions (middle class) accounted for 63% of total supply in 2010, which demonstrates a shift in demand to affordable but not poorer quality (such as prefab panel) residential properties.

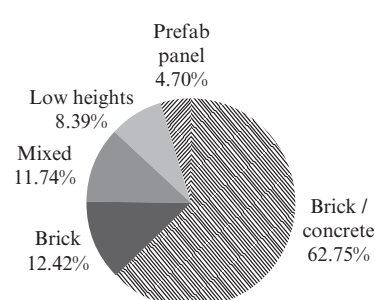
Despite the decrease in supply, new launches grew in 2010.

Supply by completion date in 2010



Source: BSN.

Supply by type of construction in 2010



Source: BN.

Housing Demand

As a result of the economic downturn, and in particular the decline in income and mortgage lending, sales of new flats in the St. Petersburg Metropolitan Area declined by 40.9% to 1.3 million square metres sold in 2009 from 2.2 million square metres in 2008, as shown in the table below. However, 2010 showed signs of recovery, illustrated by an increase in sales. In the first and second half of 2010, sales increased by 55.1% and 43.0%, respectively, as compared to the equivalent periods in 2009. This increase was driven by an increase in economy class segment sales of 68.6% in the fourth quarter of 2010 as compared to the fourth quarter of 2009.

The table below shows the sales of premium, middle and economy class flats on the primary market in St. Petersburg for the periods indicated.

	Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008	Q4 2008	Q2 2009	Q4 2009	Q2 2010	Q4 2010	Year-on- Year change Q4 2009-10
	thousand sq. m.										
Total St. Petersburg	1,453.8	801.2	624.6	1,284.3	1,532.8	717.8	577.4	775.5	895.4	1,109.1	43.0%
Economy class	1,100.2	611.6	452.6	922.8	1,109.3	502.9	438.0	664.7	737.4	850.1	27.9%
Middle class	218.5	111.0	107.4	250.4	292.3	141.3	93.4	93.0	103.6	156.8	68.6%
Premium class	135.1	78.6	64.7	111.1	131.2	73.6	46.0	17.9	54.4	102.0	471.6%

Source: SPb Realty

The prospects for the St. Petersburg Metropolitan Area residential housing market appear strong in the medium- to long-term due to the shortage of housing supply and the low quality of the existing housing stock. According to Rosstat, as of 31 December 2009, housing stock per capita stood at 23.9 square metres in the St. Petersburg Metropolitan Area, which is significantly below many Western European countries.

In addition, a substantial portion of the existing housing stock in the St. Petersburg Metropolitan Area is obsolete and requires replacement. According to the St. Petersburg City Administration of Inventory and Real Estate Appraisal, as of January 2009, the stock of obsolete flats located in the first series of Soviet-era panel houses constructed in the 1950s and 1960s amounted to 13.5 million square metres, which represented more than 12% of the overall housing stock in the St. Petersburg Metropolitan Area. Likewise, as of 1 September 2010, the St. Petersburg Administration reported that there were 106,002 communal flats in the St. Petersburg Metropolitan Area.

Prices

As the chart below shows, due to the economic downturn, the prices for new premium, middle and economy class flats significantly decreased between 2008 and 2010.

However, according to Rosstat, in St. Petersburg in 2010 the rate of decrease in prices slowed in comparison to the crisis years of 2008 and 2009. Rosstat estimates that average primary housing prices declined by 3.5% in 2010, compared to a 6.3% decline in 2009. The largest decline was in the economy (mass market) segment, in which prices fell by 7.7% in 2010 due to high competition among developers in this segment. The best performing segment was middle class properties (only 1.8% decline in prices in 2010 versus 4.5% decline in 2009). We believe that price stabilisation together with a 68.6% increase in sales and 15.6% decline in supply (as shown in previous sections) make this segment the most attractive in the St. Petersburg residential market.

The following chart sets forth the change in average primary housing prices in respect of premium, middle and economy class residential properties in the St. Petersburg Metropolitan Area for indicated periods.



Source: Rosstat

Moscow Metropolitan Area overview

The Moscow Metropolitan Area has been historically the largest real estate market in Russia. This market has shown some of the most significant rates of growth in the entire country since the collapse of the Soviet Union, supported by continuous migration from other regions of Russia to the capital and the surrounding region.

The Moscow Metropolitan Area is one of the most densely populated areas in Russia. According to Rosstat, as of 1 January 2010, the Moscow Metropolitan Area contained 12.2% of the country's total population. Driven by economic growth and increasing migration, the population of the Moscow Metropolitan Area experienced a CAGR of 0.6% over the period from 1 January 2000 to the 1 January 2010 (compared to a negative 0.4% CAGR of the country's population over the same period). This growth has supported strong demand for residential real estate in this area.

Accordingly, the Moscow Metropolitan Area constitutes the largest real estate market in Russia, with 409 million square metres of space, representing 12.8% of the total housing stock in Russia as of 31 December 2009 (*Source: Rosstat*). However, the housing stock per capita in the Moscow Metropolitan Area remains one of the lowest in Russia, at 23.7 square metres per capita as of 31 December 2009 (*Source: Rosstat*). In 2009, housing completions in the Moscow Metropolitan Area amounted to 10.9 million square metres (*Source: Rosstat*). At the end of 2010, the average price of primary housing in Moscow was USD 4,736 per square metre, which represented a 9.2% increase over the average price of USD 4,338 per square metre at the end of 2009. (*Source: Rosstat*).

Moscow market overview

Construction volumes in Moscow grew steadily between 2000 and 2007. However, growth slowed in 2008 and 2009. According to Rosstat, in 2009, Moscow's residential market (both primary and secondary) experienced a supply deficit, due to the following factors, among others:

- The effect the economic downturn had on the sector, resulting primarily in a number of projects being put on hold.
- Infrastructure capacity constraints (such as limited electricity supply, sewage capacity and road capacity) complicating new developments in several areas of Moscow.

The table below illustrates the evolution of residential space in Moscow for the periods indicated:

	2005	2006	2007	2008	2009	2010	Year-on-year change 2009-10 %
Total residential space commissioned (thousand sq. m.)	4,649.0	4,780.0	4,825.0	3,264.0	2,704.0	1,771.0	(34.5)
Total flats commissioned (units)	62,504.0	64,509.0	66,112.0	46,543.0	33,091.0	na	na
Average residential space per capita (sq. m.)	19.4	19.7	19.9	20.1	20.3	na	na

Source: Rosstat

According to the CBR, mortgage lending increased from 2005 to 2008 in Moscow. As a result of the economic downturn, mortgage lending declined in 2009; however, the volume of mortgage lending in Moscow began to grow again in 2010. Total mortgage volume in January 2011 increased by 5.5% compared to January 2010. (Source: CBR).

	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Year- on- year change Jan 10-11 %
	mln USD													
Moscow total	5,703	5,671	5,737	5,706	5,467	5,463	5,699	5,564	5,667	5,663	5,599	5,870	6,014	5.5
Denominated in RUB	2,288	2,272	2,331	2,384	2,315	2,289	2,393	2,426	2,489	2,539	2,556	2,721	2,914	27.4
Denominated in foreign currency	3,416	3,398	3,406	3,321	3,152	3,174	3,306	3,138	3,178	3,124	3,042	3,149	3,101	(9.2)

Source: CBR.

Note: Converted into USD from RUB at the CBR exchange rate at the end of the relevant period.

In addition, the government is taking a greater role in supporting affordable residential construction, with a primary focus on the economy class price segment. The Moscow budget includes both direct (cash) and indirect (non-cash) support for housing construction of RUB 10.6 billion in 2010 and RUB 7.8 billion in 2011.

According to Rosstat, average prices for residential real estate on the primary market in Moscow increased by more than 114% between 2005 and 2009, from approximately USD 2,028 per square metre at the end of 2005 to approximately USD 4,337 per square metre at the end of 2009, a CAGR of 20.1%.

Moscow has clearly defined geographical submarkets, with the most expensive and prestigious locations in the central (being inside the circular "Garden Ring" road in the centre of the city), western and south-western districts.

Supply

The significant decline in construction in Moscow between 2008 and 2009 negatively influenced completions in 2010 and might continue to have a negative effect in 2011-2012 as new projects commenced in the coming years will not be completed earlier than 2013-2015. Nevertheless, the long-term market fundamentals remain solid, as the supply of residential stock per capita remains about half of that of developed markets and will not catch up in the short term.

Corporate lending activity was low between 2009 and 2010 on the already high share of financing provided to the sector. Therefore, developers had to reshuffle their pipelines and concentrate on projects in the final stages of development while long-term developments were frozen. This resulted in a decline in the number of new developments offered on the Moscow market. The ongoing economic recovery supported an increase in corporate lending including to the construction and real estate sectors. The improved trends in lending and the recovery in demand resulted in a number of projects being resumed. Based on the data from IRN, developers resumed constructing about 2.6 million square metres of residential space in the Moscow Metropolitan Area in the first half of 2010.

The table below shows the supply of premium, middle and economy class flats on the primary market in Moscow for the periods indicated.

	<u>Q2</u> <u>2006</u>	<u>Q4</u> <u>2006</u>	<u>Q2</u> <u>2007</u>	<u>Q4</u> <u>2007</u>	<u>Q2</u> <u>2008</u>	<u>Q4</u> <u>2008</u>	<u>Q2</u> <u>2009</u>	<u>Q4</u> <u>2009</u>	<u>Q2</u> <u>2010</u>	<u>Q4</u> <u>2010</u>	Year- on- year change Q4 2009-10 %
	thousand sq. m.										
Total Moscow	2,409	3,120	2,635	2,563	2,147	1,956	2,104	2,352	1,811	1,992	(15.3)
Economy class	1,560	1,664	1,644	1,458	1,045	1,151	1,284	1,170	1,080	910	(22.2)
Middle class	689	1,259	806	905	962	586	641	1,003	567	885	(11.8)
Premium class	160	197	185	200	139	219	180	180	165	197	9.8

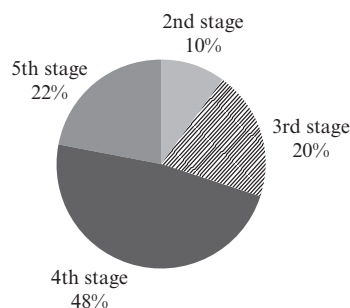
Source: MIAN.

According to Intermark Savills, in January 2011, new middle class flats were available for sale in 27 projects under construction. In six projects under development, the sales were still frozen (four of which have been frozen since 2009), while no new projects in the business class segment had been launched.

Supply of new housing in Moscow is shifting in favour of more advanced building technologies: 84.0% of properties on the market are concrete buildings and only 10.0% are prefab panel, as shown in the chart below.

Supply structure by stage of development shows that more than half of primary residential properties on the market in Moscow are completed and commissioned or in final stages of completion (70% of the total), while only 10.0% of primary residential properties are projects in the planning stage. (Source: Azbuka Zhilya).

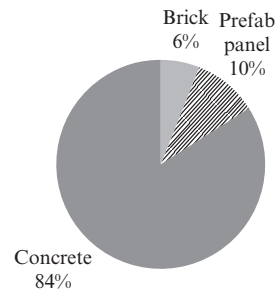
Sales by construction stage in 2010



Source: Azbuka Zhilya.

Note: 2nd stage — Zero cycle; 3rd stage — Mounting of the building above the ground level; 4th stage — Finishing works in mounted building; 5th stage — Fully completed and commissioned

Supply by type of construction in 2010



Source: Azbuka Zhilya.

Demand

The decrease in supply between 2008 and 2009 was to a certain extent matched by a fall in demand, in both the primary and secondary market, as people postponed acquiring new flats or moving to new locations due to decreasing job stability and a mortgage market that was completely closed to almost all consumers. In 2010, approximately 85,650 residential sales were registered in Moscow, a record number for the Moscow market. This figure is larger than pre-crisis sales volumes; notably, in 2007, only 77,386 sales were finalised. (Sources: *Rossreestr*; *IRN*). In square metres volume terms, sales increased by 32.7% and 11.7% in the first half of 2010 and the second half of 2010, respectively, compared to the equivalent periods in 2009.

The table below sets forth the volume of sales on the Moscow primary residential market for the periods indicated.

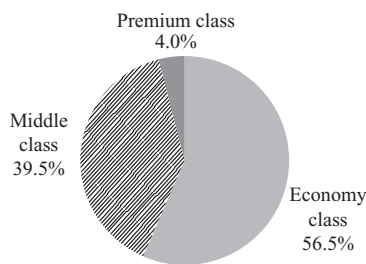
	Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008	Q4 2008	Q2 2009	Q4 2009	Q2 2010	Q4 2010	Year-on-year change Q4 2009-10 %
	thousand sq. m.										
Total Moscow	1,269	1,313	885	1,280	1,176	662	1,108	885	1,471	989	11.8
Economy class	875	706	728	584	633	374	756	397	895	558	40.5
Middle class	346	589	125	653	504	255	328	452	533	391	(13.5)
Premium class	48	18	32	44	39	33	24	36	43	40	11.1

Source: MIAN.

Azbuka Zhilya estimates that, in 2010, demand for primary housing increased by 12-15% in Moscow (measured as number of queries realtors received from prospective customers). Importantly, the share of investment transactions increased from 2-3% of real estate transactions in 2009 to 5-7% in 2010, mirroring improved sentiment in the sector.

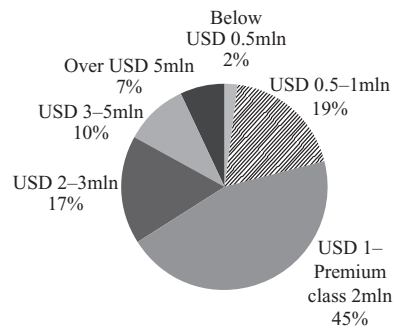
In Moscow, transactions are still skewed to economy class housing (56% of total sales at the end of 2010). Consequently, 66% of transactions fell below the USD 2 million price range, as shown in the graph below.

Sales by segment in 2010



Source: MIAN.

Sales by amount of transaction

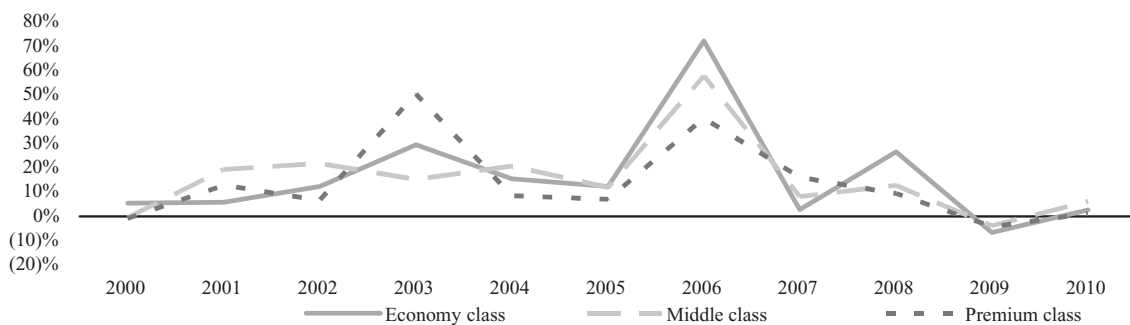


Source: Blackwood.

Prices

As a result of the economic downturn, the prices for all segments decreased from 2008 to 2009 in Moscow. In 2010, prices started to grow again, with prices for economy class, middle class and premium class primary residential properties increasing by 2.7%, 6.2% and 1.2%, respectively; however, the increase is still small compared to pre-crisis figures (26.7%, 12.8% and 9.4%, respectively, in 2008). In 2010, in the Moscow business class segment, unsold flats in completed and commissioned projects were usually offered with no discount to current prices, as construction of these projects was done at higher construction costs than it is possible to do at present and the share of unsold areas in the completed projects in Moscow is very low.

The following chart sets forth the change in average primary housing prices in respect of premium, middle and economy class residential properties in Moscow for indicated periods.



Source: Rosstat.

According to Sberbank Macroeconomic Investigation Center estimates, prices for primary residential properties in Moscow will continue to grow in 2011; the prices are forecasted to increase by 3.8%, including inflation effect, which equals an 11.3% increase in nominal terms.

Developers operating in Moscow are able to price middle class properties 57.9% higher compared to upper economy class (also known as comfort class): average prices are RUB 180,300 per square metre for middle class and RUB 114,000 per square metre for comfort class (upper economy class).

The table below shows weighted average prices on the primary residential market in Moscow in December 2010.

	<u>RUB/sq. m.</u>	<u>Premium/ (Discount) to comfort segment</u>	<u>RUB/flat</u>
Economy class	105,900	(7.3%)	9,184,000
Comfort class	114,200	—	11,048,000
Middle class	180,300	57.9%	19,201,000
Premium class	537,700	370.8%	95,387,000
Average	150,100	31.4%	15,671,000

Source: Azbuka Zhilya

Note: The table shows proposed prices and does not take into account negotiated discounts

Moscow Region market overview

The Moscow region, which excludes the city of Moscow itself, had a population of approximately 6.6 million as of 31 December 2009 (*Source: Rosstat*), and has been the largest residential real estate market in Russia since 2004, when construction volume in the region exceeded that of Moscow. Its share of the total volume of residential construction in Russia increased from 8.6% in 2000 to 14.1% in 2009 (*Source: Rosstat, by square metres*).

The volume of new residential construction in the Moscow region increased by a factor of more than 1.5 between 2005 and 2009 due, in part, to a lack of land plots and limited infrastructure capacity in the city of Moscow. This shortage has forced developers to move construction outside of Moscow, primarily to areas within 20 kilometres of the city. High demand for housing in the Moscow region has also been driven by an increasing gap between housing prices in Moscow compared to the Moscow region as well as by migration to the Moscow area in the last ten years of people who tend to purchase larger and more modern residences in the suburbs rather than smaller, lower quality apartments in the Moscow Metropolitan Area. Further, access routes to Moscow from many areas in the Moscow region are comparable to, or even better than, access routes from certain Moscow neighbourhoods located outside of the city boundaries, whilst prices are significantly lower. Expansion of residential construction deeper into the Moscow region, however, is currently limited by deficiencies in transportation infrastructure.

The table below sets the evolution of residential space in the Moscow region for the periods indicated:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Year-on- year change</u> %
Total residential space commissioned (thousand sq. m.)	5,297.0	6,484.0	7,805.0	7,881.0	8,452.0	7,733.2	(3.1)
Total flats commissioned (units)	49,217.0	71,347.0	81,219.0	83,026.0	93,041.0	na	na
Average residential space per capita (sq. m.)	24,8	25,8	27,2	28,1	29,2	na	na

Source: Rosstat

According to Rosstat, income levels in the Moscow region decreased from 2008 to November 2009; however, personal income began to recover in December 2009. Real disposable income in the Moscow region in August 2010 was 3.6% higher than in the equivalent period in 2009.

After the drop in mortgage lending during 2008 and 2009, in 2010, demand for residential properties was supported by growing mortgage lending in the Moscow region. Indeed, from January 2010 to January 2011, the volume of mortgages grew by 18.2%, which is significantly higher than in Moscow and St. Petersburg (5.5% and 2.7%, respectively).

The table below sets forth the volume of mortgages in the Moscow region for the periods indicated.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Jan-2011	Year-on-year change Jan 2010-11 %
Moscow region total	2,773	2,919	2,966	2,955	2,854	2,849	2,963	2,930	3,006	3,001	2,992	3,125	3,278	18.2
Denominated in RUB	1,558	1,604	1,649	1,670	1,628	1,610	1,680	1,705	1,764	1,783	1,792	1,884	2,050	31.6
Denominated in foreign currency	1,215	1,314	1,317	1,286	1,227	1,239	1,284	1,225	1,242	1,218	1,201	1,242	1,228	1.1

Source: CBR

Note: Converted into USD from RUB with the CBR exchange rate end of period.

Flat prices vary widely depending on a number of factors, including geographical location (specifically distance from Moscow), proximity to major transportation routes, level of development of local infrastructure and environmental cleanliness.

Supply

According to MIAN, in the fourth quarter of 2010, the supply of new flats available for sale was 52.5% greater compared to the equivalent period in 2009. The increase was mainly due to the increase in the economy class segment supply plus the increase in middle class flats available for sale. From the end of the first half of 2006 to the end of 2010, middle class segment supply has been growing semi-annually by 8.7% on average. However, despite this steady increase in volumes, the proportion that middle class properties represent of the total supply remains low (5.4% in 2010), in sharp contrast with economy class properties (93.7% of total supply in the Moscow region at the end of 2010).

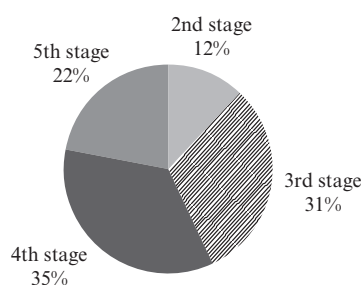
The table below shows supply of premium, middle class and economy class flats on the primary market in Moscow region for the periods indicated.

	Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008	Q4 2008	Q2 2009	Q4 2009	Q2 2010	Q4 2010	Year-on-year change Q4 2009-10 %
Total Moscow region	2,459	3,122	2,647	2,701	2,753	2,617	2,747	2,457	2,560	3,748	52.5
Economy class	2,295	2,949	2,461	2,509	2,531	2,423	2,562	2,277	2,373	3,513	54.3
Middle class	96	101	89	91	119	128	141	145	157	203	40.0
Premium class	68	72	97	101	103	67	44	34	30	31	(8.8)

Source: MIAN

In the Moscow region, in 2010, prefabricated housing accounted for 35.0% of supply, whereas 60.0% were built from concrete materials. Although some concrete buildings are considered economy class (comfort segment), this type of housing is significantly less affordable than prefabricated housing.

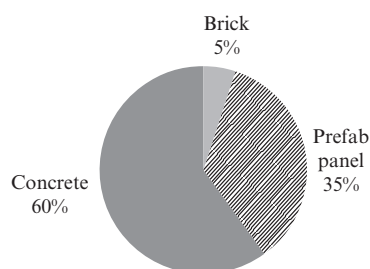
Supply by construction stage in 2010



Source: Azbuka Zhilya.

Note: 2nd stage — Zero cycle; 3rd stage — Mounting of the building above the ground level; 4th stage — Finishing works in mounted building; 5th stage — Fully completed and commissioned

Supply by type of construction in 2010



Source: Azbuka Zhilya.

Demand

Azbuka Zhilya estimates that, in 2010, demand for primary housing increased by 28-30% in the Moscow region (measured as number of queries realtors received from prospective customers). Indeed, according to MIAN, the volume of sales of primary residential properties in the Moscow region increased by 35.4% and 21.2% in the first half of 2010 and the second half of 2010, respectively, compared to the same periods of the previous year. Demand is forecasted to continue its growth as housing stock per capita remains significantly below European standards.

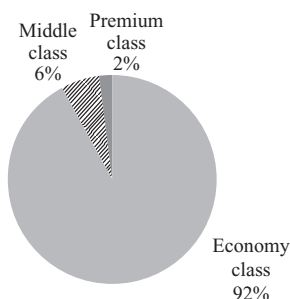
The table below sets forth volume of sales in the Moscow region primary residential market for the periods indicated.

	<u>Q2</u> <u>2006</u>	<u>Q4</u> <u>2006</u>	<u>Q2</u> <u>2007</u>	<u>Q4</u> <u>2007</u>	<u>Q2</u> <u>2008</u>	<u>Q4</u> <u>2008</u>	<u>Q2</u> <u>2009</u>	<u>Q4</u> <u>2009</u>	<u>Q2</u> <u>2010</u>	<u>Q4</u> <u>2010</u>	<u>change</u> <u>to Q4</u> <u>2009</u>
	thousand sq. m.										%
Total Moscow region	1,237	575	871	965	1,592	665	668	1,120	905	1357	21.2
Economy class	1,206	524	782	935	1,477	588	589	1,084	841	1244	14.8
Middle class	10	34	65	21	61	57	65	17	50	94	453.0
Premium class	21	17	25	9	55	21	14	18	14	19	5.5

Source: MIAN.

Despite the increase in supply of middle class properties, economy class properties remain the most liquid segment. From the second half of 2009 to the second half of 2010, the volume of sales in the economy class segment in the Moscow region increased by 14.8% and accounted for 91.6% of the total sales in the region at the end of 2010.

Sales by type of construction in 2010



Source: MIAN.

Prices

In the Moscow region, affordable economy class housing is scarce, and more than half of primary residential properties on sale are completed and commissioned or at final construction stages while only 10-12% of buildings are in the planning stage. As a result, average prices in the Moscow region bottomed out in 2010 while prices in Moscow increased. The small share of projects at early stages of development in the Moscow region suggests the current stock of primary housing might be insufficient to cover demand in 2012-13, potentially leading to stronger than expected property price inflation.

The following chart sets forth the change in average primary housing prices in respect of economy and middle class properties in the Moscow region for the periods indicated.



Source: Rosstat

Developers operating in the Moscow region were able to price so called comfort properties 50% higher compared to economy class properties in December 2010, as average prices were RUB 84,500 per square metre for comfort and RUB 55,800 per square metre for economy, as shown in the table below.

The table below shows weighted average prices on primary residential market in the Moscow region in December 2010.

	<u>RUB/sq. m.</u>	<u>Premium/(Discount) to comfort segment %</u>	<u>RUB/flat</u>
Economy class.....	55,800	(34)	3,473,000
Comfort class	84,500	—	5,567,000
Middle class	130,400	54	8,648,000
Average	65,000	(22.7)	4,239,000

Source: Azbuka Zhilya

Note: The table shows proposed prices and does not take into account negotiated discounts

BUSINESS

OVERVIEW

We are one of Russia's largest and oldest residential real estate developers, with a leading position in the St. Petersburg Metropolitan Area and a growing presence in the Moscow Metropolitan Area. Our strong portfolio is focused on large-scale residential complexes, targeting the lower middle class and upper economy class price segments. With over 23 years of experience in real estate development and construction, we believe we have one of the longest track records in the industry. Since our inception in 1987, we have successfully completed a total gross buildable area of approximately 2.7 million square metres with approximately 0.4 million square metres, 0.3 million square metres and 0.2 million square metres delivered in 2008, 2009 and 2010, respectively.

Historically, we have focused our residential property development in the St. Petersburg Metropolitan Area, where we have achieved a leading position in the private sector (excluding individual construction), with an 11% average annual market share of total residential completions between 2000 and 2010. Leveraging on our extensive experience and capabilities, in 2008, we expanded our property development business into the Moscow Metropolitan Area by commencing development projects which, as of 31 December 2010, had over 1.1 million square metres of unsold net sellable area.

As of 31 December 2010, our portfolio consisted of 28 projects in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, accounting for approximately 64.4% and 35.6% of the project portfolio's total unsold net sellable area, respectively. With a view to secure predictable cash flow generation, we believe our project portfolio provides a well-balanced schedule of completions over the next six years, with approximately 52.5% of the portfolio's total unsold net sellable area comprising residential projects in the design stage, 45.8% comprising residential projects under construction, 1.1% comprising completed residential projects with unsold units and 0.6% comprising standing commercial property as of 31 December 2010. Subject to the assumptions set out in the Valuation Report, our beneficial interest in the project portfolio amounted to USD 1.4 billion (RUB 42.7 billion) as of 31 December 2010.

We specialise in developing large-scale multi-phase residential complexes, targeting the lower middle class and upper economy class price segments. To meet the demands of our customers, our business model is focused on providing high quality living at affordable prices. We construct our residential complexes using poured concrete technology (as opposed to prefabricated panel construction), which is commonly used in more developed markets for its high quality, scalability, design flexibility and capital expenditure efficiency, and which enables us to offer our customers exceptional value for money. The defining feature of our residential developments is construction of entire estates and, in some cases, micro-districts, integrated with social infrastructure, including kindergartens, schools and hospitals. Located in the suburban or newly urbanised areas outside city centres, our residential developments combine a relatively more spacious living environment compared to city centres with convenient access to transportation networks. Our product proposition is further enhanced through provision of on-site, consumer-oriented commercial properties, recreational areas and comprehensive property maintenance services, all of which contribute to the quality lifestyle that our customers value. We believe that our extensive track record of consistent delivery of quality products at attractive prices in a timely manner has helped us to establish a solid reputation and strong brand recognition in our target markets, which, in turn, enhance our access to new development projects and help us to retain our market position in the future.

Access to our potential customer base is substantially expanded through our nationwide marketing and sales network. Focused on the regions in which people with the highest disposable income reside in Russia (including regions rich in natural resources), our network targets prospective buyers who are seeking to relocate or purchase secondary housing in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. Our regional pre-sales and sales contracts accounted for approximately 27.9% of our total contracts concluded in 2010.

As a vertically integrated developer with approximately 3,674 employees as of 31 December 2010, we have execution capabilities and technical expertise to manage the most important stages of the development process, starting from assessing development opportunities to master planning and permit management, construction, nationwide marketing and sales and on-going maintenance of the completed developments. We also operate selective businesses in the areas critical to our property development business, including production of construction materials, such as bricks, ready-mix concrete, reinforced concrete structures and aerated concrete, and tower crane operations, offering the latest generation vehicles. We believe our integrated business model allows us to control quality over the development process, realise synergistic cost savings, shorten production cycle and lower risk of dependence on suppliers in key supply and service areas.

We are also a leader in industrial construction in the North-West region of Russia based on a solid track record of successfully executing large and complex industrial construction projects since 1987. We undertake industrial construction projects in the capacity of either a general contractor or a subcontractor for both domestic and

international customers, such as Toyota, Ford, General Motors, Nissan and other household names. We plan to maintain our industrial construction operations in order to build upon our expertise, utilise our capacity and support our brand equity.

For the years ended 31 December 2008, 2009 and 2010, our consolidated revenue was RUB 14.3 billion, RUB 20.2 billion and RUB 20.3 billion, respectively, and EBITDA was RUB 3.2 billion, RUB 7.6 billion and RUB 6.9 billion, respectively. Our net debt/EBITDA ratio was 1.4x, 0.3x and 0.6x as of 31 December 2008, 2009 and 2010, respectively.

COMPETITIVE STRENGTHS

We believe that we operate in an attractive industry with strong potential for future growth of the Russian real estate market in the medium- to long-term driven by three fundamentals:

- *Living space undersupply:* According to Rosstat, in Russia housing stock per capita stood at 22 square metres as of 31 December 2009, which is substantially lower than in many countries in Western Europe. We believe that such shortage of housing supply will give rise to significant demand for residential housing.
- *Obsolete existing housing:* In addition, a substantial portion of the existing housing stock in Russia is obsolete and requires replacement. According to the Russian Ministry of Industry and Trade, as of 31 December 2009, approximately 60% of the existing residential stock was poorly maintained, 11% needed urgent major overhaul and 9% needed full reconstruction. We believe that the high level of obsolete housing stock is likely to stimulate demand further.
- *Mortgage under-penetration:* The Russian mortgage lending market remains under-developed. According to the CBR, as of 1 January 2010, the aggregate mortgage debt in Russia stood at RUB 1 trillion, or 2.5% of Russia's GDP, as compared to 52% in the EU and 81% in the USA, as of the end of 2008, according to the European Mortgage Federation. The Russian Government has historically been and remains supportive of the country's residential real estate market by actively financing mass market housing construction and implementing various Governmental programmes to support housing demand. The supportive measures by the Government coupled with an anticipated recovery of the residential market may create an opportunity for mortgage financing to rise from a low base, which is likely to drive market demand higher.

As one of the leading residential real estate developers in Russia, we consider ourselves well-positioned to benefit from these favourable market dynamics in the Russian real estate market because of the following competitive strengths:

Extensive track record of consistent delivery of quality products

With over 23 years of experience in real estate development and construction, we believe we have one of the longest track records in the Russian industry. Since our inception in 1987, we have successfully completed a total gross buildable area of approximately 2.7 million square metres with approximately 0.4 million square metres, 0.3 million square metres and 0.2 million square metres delivered in 2008, 2009 and 2010, respectively. Based on Rosstat data and our own data on the construction volume of the Group, we have achieved a leading position in the private sector (excluding individual construction) in St. Petersburg with an 11% average annual market share of total residential completions between 2000 and 2010. Leveraging on our extensive experience and capabilities, we have successfully expanded into the Moscow Metropolitan Area, where we are currently developing two large-scale economy-class residential complexes, which, as of 31 December 2010, had over 1.1 million square metres of unsold net sellable area.

We believe that our extensive track record of consistent delivery of quality products helped us to establish a solid reputation and strong brand recognition, which, in turn, enhance our access to new development projects and help us to retain our market position in the future. During the economic downturn, our strong execution capabilities and strict financial discipline enabled us to continue development of all of our residential projects on revised delivery schedules with no construction activities suspended. This compares favourably to some of our key competitors, who suspended construction activities at some of their developments entirely rather than decreasing the pace of construction. In addition, we were able to take advantage of various project portfolio expansion opportunities at attractive prices as a result of the economic downturn and commissioned 15 new buildings between the second half of 2008 and 2009. As the real estate market in Russia begins to show signs of recovery, we believe our solid reputation, tested by difficult market conditions, allows us to benefit from consumer preferences and confidence, which we believe shifted towards financially stable developers.

Nationwide sales and marketing network

We are a real estate developer with strong in-house marketing and sales competencies. Focused on the regions with the highest disposable income in Russia, our nationwide marketing and sales network allows us to capture the

market demand for our properties in these prosperous regions and substantially expand our customer base. In 2010, we sold flats to purchasers who resided in nine of the ten richest regions in Russia, as measured by disposable income, with our regional pre-sales and sales contracts accounting for approximately 27.9% of our total contracts concluded. In addition, our extensive marketing activities add value throughout all stages of the development process. This approach results in wide exposure of our products and brand to our target audience. Our strong market knowledge and understanding of our customers gained by our sales teams allow us to tailor future construction projects to market demand.

Unique price, product and market combination

Our unique price, product and market combination distinguishes us from the other key public and private players in the Russian real estate market. We primarily focus on the development of high-rise residential complexes constructed using poured concrete technology. Commonly used in developed markets for its high quality, scalability, design flexibility and capital expenditure efficiency, we believe poured concrete technology enables us to offer our customers exceptional value for money — quality living at affordable prices. The defining feature of our residential developments is construction of entire estates and, in some cases, micro-districts integrated with social infrastructure, including kindergartens, schools and hospitals. Located in the suburban or newly urbanised areas outside city centres, our residential developments combine a relatively more spacious living environment with convenient access to transportation networks. Our product proposition is further enhanced through provision of on-site consumer-oriented commercial properties, recreational areas and comprehensive property maintenance services, all of which contribute to the quality lifestyle that our customers value.

Competitive pricing combined with upscale poured concrete technology and comprehensive amenities allows us to capture a much wider customer base in the lower middle class and upper economy class price segments. According to SPb Realty and MIAN, economy class and middle class price segments dominate the St. Petersburg Metropolitan Area and Moscow Metropolitan Area real estate markets, with the premium class occupying only a marginal share of those markets. Demand for properties in these geographic markets is further enhanced through our regional sales network.

Focus on key markets — St. Petersburg and Moscow Metropolitan Areas

We believe that the St. Petersburg Metropolitan Area and Moscow Metropolitan Area are at the forefront of Russia's economic development and are expected to drive the real estate market. Our established leading position in the St. Petersburg Metropolitan Area and expanding presence in the Moscow Metropolitan Area have and will continue to position us to benefit from the expected strong economic growth in these areas and their active real estate markets.

- ***St. Petersburg Metropolitan Area:*** We have successfully established ourselves as a leading property developer in the St. Petersburg Metropolitan Area over the past ten years. According to the Valuation Report, as of 31 December 2010, our properties in the St. Petersburg Metropolitan Area comprised approximately 64.4% of the project portfolio's total unsold net sellable area. With a population of approximately five million people, St. Petersburg was the number two city in Russia by population in 2010. The St. Petersburg Metropolitan Area represented approximately 14.0% by value and 7.5% by volume of the total residential real estate commissioning in Russia in 2009. In addition, the area commanded the second highest average real estate prices in Russia and one of the highest average disposable income per capita among Russian cities in 2010. (Source: Rosstat).
- ***Moscow Metropolitan Area:*** We have established a solid foothold and will continue to expand our presence in the Moscow Metropolitan Area. According to the Valuation Report, as of 31 December 2010, our properties in the Moscow Metropolitan Area comprised approximately 35.6% of the project portfolio's total unsold net sellable area. In 2010, the Moscow Metropolitan Area had the highest population in Russia with a population of approximately 17 million people. In 2009, the Moscow Metropolitan Area accounted for 42.7% by value and 23.9% by volume of the total residential real estate commissioning in Russia. In 2010, it had the highest real estate prices and the highest average disposable income per capita in Russia. (Source: Rosstat).

Following improvements in the global financial markets, the residential real estate sector in Russia began to show overall signs of recovery. Beginning with the second half of 2009, the sales of housing started to outpace new housing supply, which is yet to recover from the economic downturn levels. We believe that the favourable supply/demand fundamentals of the Russian real estate market and the expected increase in mortgage volumes, will further support the residential real estate prices on the primary market, which have already stabilised after the economic downturn, and lead to a significant increase of pre-sales of flats in the early stages of development.

Efficient use of capital with a portfolio focused on cash generation

To enhance returns and deploy our capital more efficiently, we focus on projects with visible and predictable cash flow generation and expedient construction timing. We maintain a structured and rigorous selection process for new development projects with a focus on acquiring land plots on which we believe we can commence construction

within 18 months. We also exercise strict financial discipline by typically acquiring properties with limited initial cash outflows at the design/permitting stage. When such outflows are required, we consider investment contracts with deferred considerations payable from the revenues derived from the sale of the flats constructed on the land. As of 31 December 2010, we believe our portfolio afforded a well-balanced schedule of project completions, securing stable cash flow over the next six years, with approximately 52.5% of the portfolio's total unsold net sellable area comprising residential projects in the design stage, 45.8% comprising residential projects under construction, 1.1% comprising completed residential projects with unsold units and 0.6% comprising standing commercial property.

Expedient construction timing enables early commencement of pre-sales of flats. Cash flows generated from pre-sales is our primary source of funding for the construction of our residential developments. As of 31 December 2008, 2009 and 2010, the advances from customers, which represented prepayments for flats and commercial premises made under sales contracts, were RUB 23,283 million, RUB 17,869 million and RUB 11,988 million, respectively. We believe our strong track record of pre-sales, combined with our conservative approach to liquidity management, allows us to maintain a secure liquidity position. Our net debt/EBITDA ratio remained relatively low at 1.4x, 0.3x and 0.6x as of 31 December 2008, 2009 and 2010, respectively. As of 31 December 2010, our debt maturity profile had no threat of immediate debt repayment, with upcoming repayments spread out relatively evenly over the next five years.

Further, our unique product, price and market combination enables us to extract higher value from our developments, which, in turn, enhances our ability to secure new developments on attractive terms. Our ability to replenish our land bank on commercially desirable terms, we believe helps us ensure sustainability of our growth and leading market position in the future.

Strategic vertical integration: control over costs, quality and timing

We maintain a vertically integrated model with approximately 3,674 employees as of 31 December 2010, focused on execution capabilities and technical expertise to manage the most important stages of the development and construction process, starting from assessing development opportunities to master planning and permit management, construction, nationwide marketing and sales and on-going maintenance of the completed developments. We believe that our vertically integrated model provides our business with two key advantages:

- *Security of supply:* Our vertically integrated model offers us greater security of supply of the relevant construction materials and services, which, in turn, ensures a greater control of their quality and timing of their delivery within the construction cycle. We focus on, and believe we have been successful in both identifying potential bottlenecks in the supply chain for construction and bringing those areas in-house. For example, our production of construction materials, such as bricks, ready-mix concrete, reinforced concrete structures and aerated concrete, lowers the risk of our dependence on suppliers of these materials and provides us with operational reliability and flexibility to meet the demand for these materials quickly while maintaining their quality. Having identified a shortage of tower cranes available to construction companies, in 2009, we acquired a company which owns enough tower cranes to permit our operation to be self-sufficient in that respect in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area. We also engage in management and operation services of our properties following the completion of construction, which we believe enables us to maintain the quality of our residential complexes on a long-term basis and enhance our reputation for quality residential communities.
- *Control of costs:* Our vertically integrated model allows us to realise synergistic cost savings and achieve higher margins. To maintain greater cost discipline, we put supply of construction materials and services out to tender even where we have our in-house capabilities. In determining whether to use external suppliers or in-house resources, we take into account the capacity and location of in-house capabilities and the pricing, complexity and timing of the necessary works. We also aim to sell our free capacity not utilised by our own development projects to third parties to ensure full utilisation of our production capacity.

Strong financial performance and robust balance sheet

We have produced strong financial results over the last few years. For the years ended 31 December 2008, 2009 and 2010, we have recorded revenues of RUB 14,269 million, RUB 20,193 million and RUB 20,316 million, respectively. We believe we have outperformed our major competitors, with EBITDA margins of 22% in 2008, 38% in 2009 and 34% in 2010. This performance has been achieved, in large part, through our cash-focused, vertically integrated business model and strict financial discipline.

Our competitive position was further enhanced by our ability to successfully withstand the recent economic downturn. Our key subsidiary, SSMO LenspetsSMU, was able to retain its B/Stable/B rating by Standard & Poor's Financial Services, LLC, which was recently reconfirmed, following the placement of USD 150 million loan participation notes in November 2010.

We believe our strong financial position underpins our ability to generate pre-sales. As the Russian economy recovers from the economic downturn, we believe we are better positioned than some of our competitors to secure attractive development sites with the local authorities and achieve higher pre-sales with consumers based on our solid financial performance and creditworthiness.

Experienced and dedicated management team

We consider the strength of our management team to be fundamental to our success in the highly competitive real estate markets in which we compete. Members of our management team have long-standing experience in real estate development and construction, and also have considerable strategic and business management expertise. The key members of our management team have served in their capacities since our inception in 1987, and the average service of our management team with us is more than ten years. In addition, our management team is highly incentivised and, as of 31 December 2010, held approximately 17.4% of our outstanding Ordinary Shares (excluding the stake of our founding shareholder and President, Mr. Viacheslav Zarenkov and Mr. Dmitri Zarenkov, our First Vice-President).

We believe the stability of our management team and the extensive experience of its members in property development, industry knowledge and in-depth understanding of the real estate market should enable us to continue to take advantage of the opportunities presented by the Russian real estate market. We also believe that the strength of our management team helped us better endure the recent economic downturn, as the management team expeditiously identified and implemented the necessary measures to protect our operations and financial position and successfully navigated our operations through such an economic turmoil.

Strong corporate governance and cornerstone international investor

We have implemented a stringent set of corporate governance standards in many respects, including maintaining a balanced composition of the Board of Directors with five non-executive directors, including two independent non-executive directors. We have also established audit, remuneration and nomination committees.

We also benefit from having an internationally recognised investor Baring Vostok represented on our Board of Directors by two non-executive directors.

STRATEGY

We aim to maximise value for our shareholders by pursuing the following strategies:

- *Targeting key markets.* We intend to continue to strengthen our position as a leading property developer in the St. Petersburg Metropolitan Area and build on our success to date in Moscow by enhancing our brand recognition and increasing our market share in the Moscow Metropolitan Area real estate market. We also intend to continue to expand and leverage our national sales network to extract sales from prosperous regions in Russia, further expanding our customer base and providing sustainable growth to our business.
- *Hone our product and enhance our core competencies.* We plan to continue our focus on development of large-scale residential real estate complexes targeting the lower middle class and upper economy class price segments in the mass market. We will hone our product offering by continuing to respond to feedback from our extensive sales network and tailor future projects to meet changing market requirements. To meet the expected growth in demand in our target market segments, we intend to maintain our vertically integrated model, which we believe has been key to realising synergies.
- *Efficient land bank approach focused on capital efficiency.* We plan to continue maintaining sufficient land reserves for sustainable development with a portfolio turnover ratio of seven to nine years, enabling us to minimise the time period between acquisition and development of the acquired land, thus assuring our capital will be more efficiently deployed, and enhancing returns. In addition, our strategy is to maintain a reasonable mix of large-scale multi-phase and low-scale projects and our conservative approach to project selection, which usually entails not acquiring projects where we do not believe that the gross margin will be above 30%. We also aim to capitalise on our strong financial condition and increase our market dominance and competitive advantage in the markets in which we operate by securing our presence in targeted locations at attractive prices. Our long term strategy is to substantially increase commissioning volume, reaching up to 1.0 million square metres of net sellable area *per annum*.
- *Continue to cultivate our market reputation.* As a marketing-focused organisation, we intend to continue to invest in sales and marketing. In particular, we will seek to build market recognition of our brand through marketing initiatives such as advertising campaigns and organising events for our customer base. We also intend to continue to focus on customer services, which we believe generates positive customer perception and enhances our reputation in the market place.

- *Prudent and diversified financing.* We remain committed to our conservative financing strategy. We will seek to improve the structure of our borrowings by lengthening the overall maturity profile of our debt, lowering the cost of our borrowings and diversifying our sources of financing, while maintaining low leverage.

HISTORY AND DEVELOPMENT

Etalon Group Limited was incorporated with limited liability in Guernsey on 8 November 2007 under Guernsey Law.

Our history dates back to 1987, when the Soviet Ministry of Electronics formed our predecessor, Leningrad Special Construction and Maintenance Directorate (“**LSCMD**”). Headed by our founding shareholder Viacheslav Zarenkov, LSCMD was a special unit within the Ministry primarily engaged in providing various construction and maintenance services in the North-West region of Russia. In accordance with the Russian government’s programme of the privatisation of Russian industry, in 1991, the state-owned LSCMD was reorganised into a cooperative privately owned enterprise, LenSpetsSMU. In 1995, it was reorganised into LenSpetsSMU. We commissioned our first major real estate development project as a private entity in 1996.

In 1996, we began the process of expanding our operations by strategically acquiring existing companies and establishing new subsidiaries in key market areas. In 1997, we established LSSMU-Rekonstruktisiya, our construction subsidiary, which acts as a general contractor for our development projects. In 1998, we acquired MFTC, which is one of our four key real estate development subsidiaries. We have also invested in our construction materials production business to supply the needs of our growing development process. In 1996, we acquired SMU Electronstroy, primarily engaged in production of ready-mix concrete, reinforced concrete structures and aerated concrete. In 1998, we acquired our brick production facilities, located in the Leningrad region.

In 2001, we began taking significant steps towards implementing a fully vertically integrated structure by spinning off our production and servicing units with a view to simplify our corporate structure, enhance legal and financial transparency and facilitate financial reporting. In 2001, ZSM Etalon was integrated into our group structure to consolidate our brick production facilities. In 2002, we established TSUN, acting as our primary real estate broker, which currently operates ten sales offices in the St. Petersburg Metropolitan Area and an additional ten regional offices nationwide. In 2003, we established Aktiv, which is engaged in leasing construction equipment and machinery to the Group companies and third parties. EtalonProekt was formed in 2004, which acts as our in-house architecture and design centre.

In 2001, we also established a management company, Management Company Etalon, in order to optimise the management structure of our operations. In 2008 and 2009, a number of subsidiaries were consolidated based on the management service contracts with Management Company Etalon, acting as the Russian sub-holding company of the Group. Management service contracts give Management Company Etalon the power to govern the financial and operating policies of those subsidiaries and obtain benefits from their activities. In 2008, the existing Russian shareholders of Management Company Etalon transferred their shares in Management Company Etalon to Etalon Group Limited in exchange for the shares of Etalon Group Limited, which resulted in Etalon Group Limited becoming the parent company of the Group. As of 31 December 2010, our Group controlled 83 legal entities, which encompass the full real estate development cycle.

In 2004, we completed the Lansky Estate project, reaching a mark of 1.0 million square metres of total area built since our establishment. In just three years, we increased this mark to 1.5 million square metres by completing our third phase of the Golden Bay project in 2007.

Recognising substantial demand for construction of industrial facilities in the North-West region, in 2005, we established EtalonPromstroy, our industrial construction subsidiary. Since 2005, EtalonPromstroy has become one of the leading companies in industrial construction in the North-West region, completing industrial projects with a total contract value of approximately RUB 2.9 billion.

In 2005, as part of our sales efforts, we entered into a partnership agreement with Rosbank, which provides financing to purchasers of our flats. We have continued to strengthen our expertise in mortgage finance and, as of 31 December 2010, participated in joint mortgage programmes with such large national and regional banks in Russia as Sberbank, VTB24, CB Eurotrust, CB Miraf-bank, Bank of Khanty-Mansijsk, Gazprombank, Absolut Bank, Otkritie Bank (the Petrovsky branch), Sviaz-Bank and Promservisbank. In addition, we also have arrangements with mortgage agencies such as Baltiyskaya Ipotechnaya Korporatsiya, Hypothecary Agency of Saint-Petersburg, Spb RegionIpoteka and Universalnaya Ipotechnaya Kompaniya.

In 2006, we sought to expand into the Moscow Metropolitan Area by establishing Etalon-Invest, our real estate development company in the area. In 2008, we acquired SPM Zhilstroy, which currently acts as a general contractor for Emerald Hills, our flagship project of approximately 846.7 thousand square metres of unsold net sellable area as of 31 December 2010, located in Krasnogorsk in the Moscow region. In 2010, we commenced development of our

second project in the Moscow Metropolitan Area, the Etalon-City project, of approximately 269.5 thousand square metres of unsold net sellable area as of 31 December 2010, located in Moscow.

In 2008, we divested a 15% equity interest in the Company to the Baring Vostok Funds, one of the leading private equity groups in the CIS. The capital raised in this transaction was in part used to further expand our project portfolio.

In 2009, we obtained control of LLC Severnaya Vysota I K (currently, UM Etalon), a company holding construction tower cranes under finance lease contracts by acquiring 70% of the shares, thereby increasing our equity from 30% to 100%. Taking control of UM Etalon has enabled us to reduce crane rent costs and helped us to safeguard access to tower cranes that are essential for the construction process.

OPERATIONAL STRUCTURE

The activities of the principal subsidiary entities of the Company are set out in the table below:

<u>Subsidiary name</u>	<u>Summary of primary activities</u>	<u>Direct ownership interest as of the date of this prospectus</u>
		%
Management Company Etalon ⁽¹⁾	Management services	99.5
SSMO LenSpetsSMU ⁽²⁾	Real estate development	98.5
MFTC ⁽³⁾	Real estate development	90.0
TSUN	Sales	100.0
Aktiv	Equipment maintenance	100.0
Novator ⁽⁴⁾	General contractor	90.0
LenSpetsSMU-Rekonstruktsiya ⁽⁵⁾	General contractor	80.0

Notes:

- (1) The remaining 0.5% participation interest in Management Company Etalon is held by our management.
- (2) The remaining 1.5% participation interest in SSMO LenSpetsSMU is held by Valentina Chulgaeva, the Head of Economics and Planning Department of Management Company Etalon.
- (3) The remaining 10% participation interest in MFTC is held by Petr Mayorov, the General Director of MFTC.
- (4) The remaining 10% participation interest in Novator is held by our management.
- (5) The remaining 20% participation interest in LenSpetsSMU-Rekonstruktsiya is held by our management.

Our registered office is located at Ogier House, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 IWA and our telephone number is +44 (0)20 8123 1328. Our principal place of business in Russia is at 2 Bogatyrsky prospect, St. Petersburg. Our website is www.etalongroup.com. Information contained on our website does not constitute part of this prospectus.

RESIDENTIAL DEVELOPMENT

Overview

Our residential development segment is our largest business unit. External revenues of our residential development segment were 82.0%, 85.2% and 83.0% of our consolidated revenues for the years ended 31 December 2008, 2009 and 2010, respectively.

We are one of the largest real estate developers in Russia. With over 23 years of experience in real estate development and construction, we believe we have one of the longest track records in the Russian industry. Since our inception in 1987, we have successfully completed a total gross buildable area of approximately 2.7 million square metres with approximately 0.4 million square metres, 0.3 million square metres and 0.2 million square metres delivered in 2008, 2009 and 2010, respectively.

The following table sets forth details of our accumulated commissioning for the periods indicated.

	<u>1996-</u> <u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
	GBA, thousand sq. m.											
Group's accumulated commissioning. . .	236	123	142	168	223	353	240	232	411	324	217	2,668

Geographic focus

Historically, we have focused our property development operations in the St. Petersburg Metropolitan Area, where we have achieved a leading position in the private sector (excluding individual construction), with an 11% average annual market share of total residential completions between 2000 and 2010.

The following table sets forth details of our accumulated commissioning and our share in total residential commissioning in the St. Petersburg Metropolitan Area for the periods indicated.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total residential commissioning in SPMA (GBA, mln sq. m.)	1.0	1.1	1.1	1.7	2.0	2.2	2.2	2.5	3.0	2.3	2.5
Group's share in total residential commissioning in SPMA (%) ⁽¹⁾	11	11	12	10	11	16	11	9	13	12	8

Source:

(1) Rosstat; Company data.

Leveraging our extensive experience and capabilities, in 2008, we expanded our property development business into the Moscow Metropolitan Area by commencing development projects which, as of 31 December 2010, had over 1.1 million square metres of unsold net sellable area.

Market segment

We focus on the development of large-scale residential complexes, targeting customers in the lower middle class and upper economy class price segments, which typically include non-executive professionals, mid- to senior-level managers, entrepreneurs and public servants. To meet the demands of our customers, who are increasingly seeking an improved standard of living, our business model is focused on providing high quality, modern housing and a comfortable living environment at competitive prices.

The following table sets forth details of our customer base by occupation for the period indicated.

<u>Occupation</u>	<u>2010</u> %
Non-executive professionals	24
Public servants	12
Entrepreneurs	16
Middle managers	19
Senior executives	7
Students	6
Other	16

Poured concrete technology

Our residential developments are constructed primarily using poured concrete technology with brick elements and ventilated facades. The poured concrete technology enables us to offer our customers high-quality properties, which benefit from free-pattern planning, architectural design flexibility, greater durability and a high level of thermal and noise insulation.

In addition, the poured concrete technology provides us with substantial cost saving opportunities. The technology is highly scalable, which helps to maximise the efficiency of land plot configuration, and easily adoptable to diverse topographical conditions. Compared to construction using prefabricated panels, the poured concrete technology is highly mobile and requires relatively limited maintenance capital expenditure. Construction can be commenced as soon as the required machinery and a light formwork system are on site. Typically, in poured concrete construction, walls and slabs are constructed together by pouring fluid cement concrete into a formwork system while using nominal quantities of metallic reinforcement bars for strengthening and stabilisation purposes. Openings for doors and windows and electrical and plumbing elements must also be in place before the concrete is poured. In contrast, construction using prefabricated panels involves the production of reinforced panels and other building components at a factory, followed by the delivery and installation of such panels and components at the construction site, which subjects a developer to product availability and transportation costs. In addition, construction materials utilised in the poured concrete technology can be easily procured in the market and instead of being transported to the factory where they are turned into prefabricated panels, are shipped directly to the construction site. Finally, investments in capacity expansion required to support growing construction volumes are relatively immaterial on a square metre basis. For example, the total spending for acquisition of plant, property and equipment amounted to RUB 446 million or 3% of the total revenue in 2008, RUB 221 million or 1% of the total revenue in 2009 and RUB 329 million or 2% of the total revenue in 2010.

To adopt poured concrete to cold climatic conditions during winter months in the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, we introduce certain additives to the concrete mix, which improve concrete freeze resistance.

Large-scale residential complexes and micro-districts specialisation

The distinctive feature of our residential real estate developments is construction of entire estates and, in some cases, micro-districts integrated with social infrastructure. Located primarily in the suburban or newly urbanised areas outside city centres, our residential communities combine a more spacious living environment compared to city centres with convenient access to transportation networks. Many of our projects are situated in environmentally cleaner districts and adjacent to natural scenery, such as parks and lakes.

In addition to providing a more competitively priced alternative with lower density, our developments provide a better living environment through provision of comprehensive on-site community facilities and premium services. Depending on the nature and size of the project, our residential complexes include amenities such as open green expanses, landscaped common gardens, well-maintained sidewalks with street lighting, play areas, tennis courts and other recreational facilities. The lower floors of our large residential complexes are usually dedicated to various consumer-oriented commercial properties, designed to enhance the living environment for residents and other members of the surrounding communities by providing easy access to staple services such as supermarkets, retail stores, restaurants and personal care services. In some cases, our developments are integrated with social infrastructure, including kindergartens, schools, hospitals and fitness centres.

By specialising in the development of large-scale residential complexes, we believe we benefit from economies of scale through (i) the utilisation of our strong execution and production capabilities of our vertically integrated business, which enables us to have a short construction cycle and be engaged in the development of a significant number of properties in a cost-effective manner; and (ii) strengthening of our bargaining power with suppliers, which enables us to obtain good quality supplies and services at relatively low costs. As a result, we believe we are able to provide high quality and competitively priced products to our customers and, in turn, benefit from earlier pre-sales at attractive margins.

Multi-phase development

We typically develop our large residential complexes in several phases. This approach provides us with flexibility to adapt the construction schedule of each phase to meet changes in demand, and, therefore, avoid incurring construction costs and carrying a large inventory of unsold units in the event of an unexpected market decline. Based on the feedback received from sales teams and sales results, the model also allows us to modify our designs and offerings based on changing consumer trends and tastes.

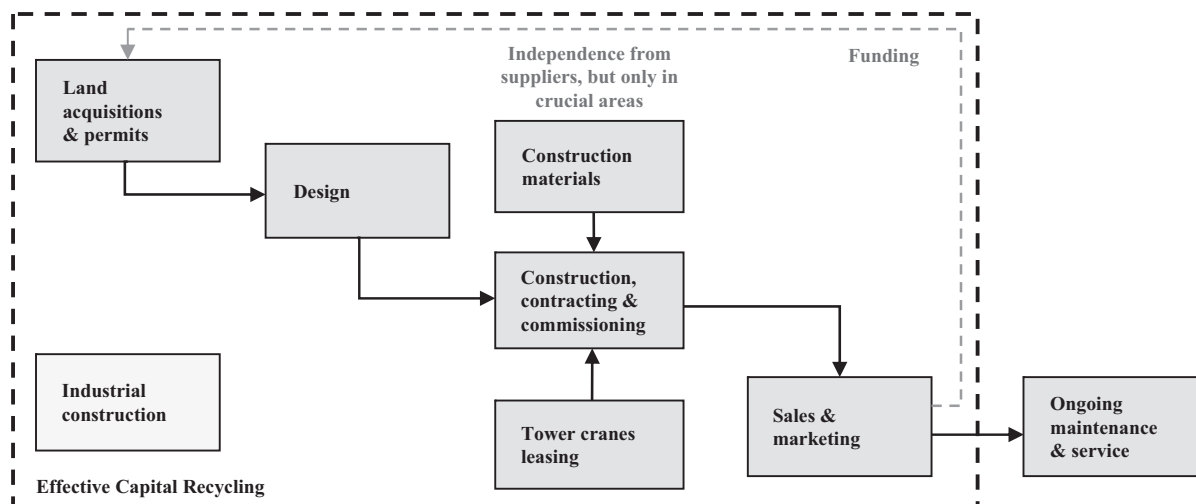
Our strategy is to maintain a reasonable mix of multi-phase residential complexes and stand-alone residential buildings. It is further our strategy for each individual phase of the multi-phase project to be similar in size with small variations conditional upon chosen architectural design.

Development Process

Our vertically integrated business model allows us to manage the most important stages of the development process, starting from assessing development opportunities to master planning and permit management, construction, nationwide marketing and sales and on-going maintenance of the completed developments.

Our real estate development activities are managed by our in-house project management companies, which are responsible for ensuring that the development and construction of our properties progresses in a timely manner. Construction work is monitored through on-site visits and progress reports. In line with our prudent financial management philosophy, we ensure that the construction of the development properties is carried out in a cost-effective manner. We have stringent financial controls and actively manage and control our costs through careful budget planning processes such as reviews of project expenditure reports. Our project management teams ensure that our cost control policies are effectively applied in the construction process of our development projects.

The diagram below illustrates our integrated development process:



Assessing developmental opportunities

We consider careful site selection as a key step to success. Our land development division is responsible for identifying sites for prospective development. Before purchasing land for development or acquiring development rights in relation to a land plot, our land development division, working closely with our in-house marketing division, planning and control division and design division, assesses the feasibility of a potential development opportunity, considering a range of factors, including:

- *Geographic location:* In line with our strategy, we seek to develop properties located primarily in the suburban or newly urbanised areas outside city centres of the St. Petersburg Metropolitan Area and Moscow Metropolitan Area.
- *Site assessment:* We conduct comprehensive and in-depth market research and analysis to evaluate the market potential and value of the areas surrounding the land and the development potential of the land. Key factors that are considered during the site assessment include disposable income and purchasing power of the consumers, transportation access and availability of infrastructural support and demand for residential property developments in the area. We also assess the overall competitive landscape by examining existing and potential property developments in the area.
- *Concept design:* We engage our in-house marketing and sales team and design team to explore preliminary design possibilities for a particular development, taking into account size, shape and location of the site and suitability of the site for our products.
- *Investment profitability:* We seek to invest in projects that will generate gross margin of above 30%. We also consider other factors, such as the payback period, the growth potential for the project and how the project fits in more generally within the cash flow profile of our project portfolio. To enhance returns and deploy our capital more efficiently, we focus on projects with visible and predictable cash flow generation and expedient construction timing. We also exercise strict financial discipline by typically acquiring properties with limited initial cash flow at the design/permitting stage. When such outflows are required, we consider investment contracts with deferred consideration payable from the revenues derived from the sale of the flats constructed on the land.
- *Potential permitting and regulatory concerns:* Working closely with the relevant local authorities, we assess the likelihood of obtaining the required permitting, planning, zoning and environmental approvals relating to the development and establish whether there are any significant obstacles that could hinder our ability to deliver the project on time and within budget. To ensure a shorter development cycle, we seek to acquire land plots with proper zoning and initial permitting already in place and on which we believe we can commence construction within 18 months.

Upon completion of the preliminary analysis, a feasibility report is prepared and presented to our investment committee, comprising members of senior management. If the proposed project is approved by the investment committee, we seek to engage our legal department and external consultants to conduct comprehensive legal, financial and tax due diligence investigations and negotiations of the transaction documents. To the extent that the investment required is above a certain specified materiality threshold, the proposed project must receive a final approval from the Board of Directors. On average, we approve three to six projects a year.

Acquiring land plots or obtaining development rights

The following are the principal ways in which we acquire land plots or development rights to land plots and/or buildings located on land plots, which differ to a certain extent depending on whether we are acquiring these rights in the St. Petersburg Metropolitan Area or the Moscow Metropolitan Area:

- *Purchase or lease of state or municipally owned land through a tender process*

We participate in tenders organised by the city authorities in respect of land plots, which can be either leased or transferred to us in order to be developed. In Moscow, a right to conclude a land plot lease agreement may only be provided through a tender process. As a condition for entering into an agreement on sale and purchase of a land plot and/or land plot lease agreement, the prospective developer obtaining rights must also pay a fee for entering into a contract, the amount of which is determined in advance. In Moscow, however, in addition to receiving a fee paid by the prospective developer, the City of Moscow will also retain an interest in the development project.

Usually, the city authorities, prior to the tender process, will determine the scope and scale of the development project. It is also common for a developer to be required to develop infrastructure, such as roads, water and electricity in the vicinity of the development project. In the case of land leases, the amount of rent to be paid to the city authorities will also have been determined beforehand.

- *Conclusion of an investment agreement with relevant government authority*

Where, according to regional legislation, no tender process is required, as is the case in the Moscow region and the St. Petersburg Metropolitan Area, and the seller is a governmental authority, we are often asked to enter into investment agreements. Subject to certain requirements, prior to October 2005 it was possible to enter into investment agreements for both residential and commercial real estate developments without going through a tender process. Subsequent legislation means that this option is now available for non-residential development only. Investment agreements in the St. Petersburg Metropolitan Area typically require the payment of monetary consideration to or the retention of an interest in the development by the city authorities in return for the right to carry out the relevant project. In Moscow, the city authorities will almost always seek to obtain an interest in the new development instead of monetary compensation. In practice, some of the state authorities that participate in such development projects may give us the option to buy-out their share in the new development in exchange for premises located in other developments. For example, we have entered into investment agreements with relevant governmental authorities in relation to such projects, as Emerald Hills and Rainbow.

Under the terms of an investment agreement, a developer becomes the owner of the completed building or structure, subject to any interest of the state authorities, but does not become an owner of the land upon which such building or structure is located. The investment agreement provides for the grant of a land lease primarily for the purpose of carrying out construction on the relevant land plot. Upon completion of construction, the land lease agreement with the developer is usually terminated, and the rights to the relevant land plot underlying the completed building are acquired by the Cooperative or a homeowners' partnership (the "**Partnership**") formed by purchasers of the flats in such building. See "*Regulation of Real Estate in Russia — Residential Construction — Key Features*".

Under investment contracts with municipal and regional government authorities, we may be required to build certain objects of social infrastructure, such as schools and hospitals, or participate in the development and upgrade of city utility systems. See "*— Urban Planning and Development*".

- *Direct acquisition of a land plot and/or building*

We commonly purchase the freehold of land plots (together with any buildings thereon) from private parties in order to obtain development rights in the St. Petersburg Metropolitan Area and Moscow region. In Moscow, the situation is different since land is very rarely transferred into private ownership and is instead leased to the owner of a building situated on the land plot. For this reason, it is common practice to acquire a building and thereby automatically obtain a lease right to the underlying land plot for the remaining term. Following acquisition of a lease to a land plot, we carry out demolition of the existing buildings and begin new construction on the land plot or, alternatively, reconstruction of the existing buildings. Where a development project leads to an increase in the total floor area of the building, we are under an obligation to transfer a share in the new development to the City of Moscow.

- *Conclusion of a co-investment agreement*

Under co-investment agreements, typically the party owning the land right contributes the right to the development while we finance the construction of the project and manage the development solely or jointly with the third party. Shares in premises or proceeds from the developed project are distributed between the parties in accordance with the provisions in the relevant agreement. For example, we have entered into an agreement on investing in construction with LLC Pioneer-Invest.

- *Acquisition of interest in the company holding ownership or lease right or acting as a party to an investment agreement*

We sometimes acquire an equity interest in an existing entity, which possesses ownership or lease rights for a targeted property or has executed an investment or co-investment agreement with respect to a development.

Master Planning and Permit Management

Construction on an allocated land plot may only be carried out after obtaining a construction permit. Obtaining a construction permit is a multistage process, which ranges from 12 to 18 months and includes:

- *Preliminary design stage:* this stage involves preparing and obtaining approval of preliminary design materials. At the preliminary stage, our in-house design team will prepare an initial feasibility study, including mapping, engineering, architectural, legal and marketing studies, as the case may be. The scope of the project could be limited by the terms of an investment agreement with the federal or regional governmental authorities. These pre-design materials will be submitted to various federal and local authorities for approval. Once all required approvals have been received, the local authority will issue a permit for the development of the initial project documentation. In some circumstances, we acquire projects with the permit already issued.
- *Project design stage:* this stage involves preparing and obtaining approval of design documentation. The project design documentation will be prepared on the basis of the approved pre-design materials and will typically include a land plot scheme with a layout of the building, as well as the technical specifications for a power grid, sewage system and gas and water supplies, taking into account terms of an investment agreement, if any. The project documentation is submitted to the relevant local and federal authorities for obtaining its approval and issuance of a construction permit. For a project comprising multiple phases, we are required to obtain construction permit from the relevant regulatory authority for each phase of the development. A construction permit is issued for a term of not more than three years, but it may be extended. Construction permits may also be amended once construction has begun to the extent the scope and the nature of the project has changed. A construction permit may also be cancelled prior to its expiry date; in particular, in the event of a fundamental breach of the project documentation and/or the building and architectural rules and regulations or on other grounds.

We have our own in-house architecture and design centre, which, as of 31 December 2010, consisted of approximately 100 experienced research and design professionals with strong knowledge in the local market. In the case of larger developments or as a requirement under an investment agreement, we sometimes engage recognised independent architects to design our developments. Involving our in-house design centre at an early stage of a property development project allows for the formulation of a preliminary design when we are negotiating with the relevant regulatory authority and enables us to commence construction shortly after the requisite approval to develop a parcel of land has been granted. In certain circumstances, we conduct preliminary development activities to prepare the site for construction, which reduces the overall time needed to complete the development.

In order to meet evolving preferences of our customers, we invest considerable resources in creating distinctive architectural designs, aimed at providing high-quality, comfortable and functional properties. We believe our customers associate our brand image, in part, with the modern and trend-setting designs of our properties. In recognition of the high quality and innovative design of our projects, we have received numerous awards from different organisations.

Historically, we have acquired several development projects, including such projects as Prestige, Talisman, Stock Exchange Business Centre, Kremenchugskaya street-11 and Moskovsky prospect-115, located in the historical centre of St. Petersburg where development and construction is heavily regulated and subject to various restrictions and specific regulations, including a requirement that the St. Petersburg Authority for Monument Conservation must approve the project documentation for any development located within the preservation zone. For additional discussion, see “*Regulation of Real Estate in Russia — Construction and Development — Restrictions in the St. Petersburg preservation zone*”.

Urban Planning and Development

Depending on the terms of our investment contracts, we may be required to perform (or make a commitment to perform) specified urban planning and development activities before a construction permit is granted. Urban planning and development requirements can be complex and are normally undertaken in close cooperation with local, regional and federal authorities. This may involve the development of local infrastructure including, for example, constructing kindergartens, schools and hospitals, landscaping adjacent land, improving roads, building water heating stations, and providing utilities access. Upon completion of the construction and sale of the local infrastructure to the relevant government authority, we have no further obligations to the government in relation to such infrastructure, including its maintenance.

Construction

The construction stage commences upon receipt of the construction permit and typically takes 18 to 30 months to complete (not including the state commissioning process described below). Our in-house general contractors are responsible for supervising construction and performing auxiliary projects such as landscaping and providing utilities and road access. Acting as general contractors for our development projects provides us with better control over the costs and timing of the construction process and allows us to better allocate resources across our developments. We closely monitor the progress of construction of our property projects and conduct pre-delivery inspections to ensure timely delivery.

Our in-house general contractors oversee the procurement of materials as well as the selection and utilisation of subcontractors. External subcontractors are typically only appointed where particular specialised construction works cannot be carried out by us or can be carried out more profitably by third parties. This applies primarily to interior finishing, lift installation, plumbing and electrical installation. We appoint subcontractors based on a number of criteria. Most importantly, subcontractors should have relevant experience, be reliable and capable of supplying services of a sufficiently high quality. It is also important that they complete their work on time, within budget and in accordance with the contract terms, conditions and specifications. In case of subcontractors with whom we have not previously worked, we usually conduct a tender process. To maintain greater cost discipline, we put supply of construction materials and services out to tender even where we have our in-house capabilities. In determining whether to use external suppliers or in-house resources, we take into account the capacity and location of in-house capabilities and the pricing, complexity and timing of the necessary works.

Upon completion of construction, all regulatory authorities involved in the development process inspect the completed development to ensure that we have complied with the terms and conditions of any federal and local approvals and regulations. The inspection process, known as state commissioning, could take up to six to eight months to complete. Once state commissioning in respect of a newly constructed property is completed, we become legally entitled to operate and use the property. At this stage, we start the preparation of all documents necessary to register the ownership rights to the real estate units and transfer them to purchasers, which takes approximately three months to complete.

Some state authorisations and permits that are required for construction are issued for a certain term specified in such authorisations and permits. In the event that construction is delayed and we fail to ensure timely completion of the construction works, we may be subject to fines, cancellation of leases, forced auctions or other involuntary transfer of title. See *“Risk Factors — Risks Relating to Our Business — Delays in commencement or completion of construction may affect our rights under land leases or investment contracts entered into with local and regional authorities”*.

Pre-Sales

At the core of our financial business model is pre-sale of the large majority of flats prior to the completion of the construction of the development, which enables us to largely finance the construction with advances received from our customers. As of 31 December 2008, 2009 and 2010, the advances from customers, which represented prepayments for flats and commercial premises made under sales contracts, were RUB 23,283 million, RUB 17,869 million and RUB 11,988 million, respectively. Prior to the onset of the economic downturn, on average, we had pre-sold in each phase of our residential properties approximately 85% of the net sellable area by the time the relevant building was accepted by the State Commission, with approximately 10% and 5% of the net sellable area sold in the first and second year after commissioning, respectively. Following the economic downturn, this pattern shifted to fewer sales contracted before commissioning: in each phase of our residential properties, approximately 60% of the net sellable area is pre-sold by the time the relevant building is accepted by the State Commission, with approximately 25% and 15% of the net sellable area sold in the first and second year after commissioning, respectively. Overall, we believe our pre-sale business model provides us with significant benefits, including conservative cash management, minimum leverage, improved predictability of future earnings and an improved return on capital.

Pre-sales of flats in the projects commence as soon as a construction permit has been obtained. As a result of recent legislative changes, we are no longer allowed to directly enter into pre-sale contracts with private individuals before a construction permit is obtained. See *“Regulation of Real Estate in Russia — Residential Construction — Financing and Sale.”* Therefore, to assist individuals who are interested in investing in our development projects, we establish the Cooperative. Upon formation of the Cooperative, private investors become its members and contribute their funds to the Cooperative, which, in turn, invests received funds in construction on the basis of co-investment agreements. Investments made by the Cooperative are not subject to regulation by the Cost Sharing Law. See *“Risk Factors — Risks Relating to Our Business — Our ability to finance construction projects may be materially adversely affected by the Cost Sharing Law.”* We believe that the transactions, which our subsidiaries and

we enter into with individual investors, are in compliance with the legislation of the Russian Federation. Still, we cannot guarantee that the transactions will not be challenged in the future by the relevant authorities. For more information, see “*Risk Factors — Risks Relating to Our Business — We are subject to numerous development, construction and investment risks inherent to real estate development.*”

Recently adopted Russian legislation also offers statutory protections to individuals who purchase pre-sold properties directly from a developer. Where a purchaser pays for a property that is yet to be completed, by operation of law, the purchaser becomes a pledgee of a part of the land plot and construction in progress proportional to the purchaser’s investment. See “*Regulation of Real Estate in Russia — Residential Construction — Financing and Sale.*”

Payment Methods and Mortgage Financing

Upon the execution of a purchase contract, our customer may choose to make a lump sum payment of the entire purchase price (with or without mortgage financing) or instalment payments. We provide financing to our customers in a form of instalment plans, the terms of which are individually agreed and can vary. Our typical instalment plan provides for an initial 50% down payment payable at the time the purchase agreement is signed with the remaining amount of the purchase price plus interest and fees settled in equal instalments over the period that lasts from the moment of the property acquisition until the second anniversary of its completion.

We have historically experienced a low rate of cancelled sales. In the last three years, less than 5% of our contracted pre-sales have been cancelled. We take a proactive approach in default prevention by working closely with our customers at risk of default to find alternative solutions, including extension of the repayment term or the reduction of the principal owed by substituting the purchased unit with a smaller unit. In the event of default, we are entitled to terminate the purchase agreement and claim penalty fees.

Purchasers of our properties, including those purchasing pre-sale properties, may also arrange for mortgage financing with banks. As part of sales efforts, we offer comprehensive mortgage consulting assistance to our customers at no charge. To broaden the market for our residential developments, we have entered into arrangements with large national and regional banks in Russia, such as Sberbank, VTB24, CB Eurotrust, CB Miraf-bank, Bank of Khanty-Mansijsk, Gazprombank, Absolut Bank, Otkritie Bank (the Petrovsky branch), Sviaz-Bank and Promservisbank, which provide mortgage financing programmes tailored to the needs of our customers. In addition, we also have arrangements with mortgage agencies such as Baltijskaya Ipotechnaya Korporatsiya, Hypothecary Agency of Saint-Petersburg, Spb RegionIpoteka and Universalnaya Ipotechnaya Kompaniya. In 2010, approximately 5% of our sales of flats were made using one of our financing arrangements, backed by the banks.

Russian banks typically provide mortgage loans to finance purchases of completed residencies (primarily, in the secondary market) to qualifying customers in various regions of Russia. To finance acquisitions of unfinished properties under construction, lenders typically require a mortgage over additional real property (other than the acquired unfinished property) to secure such debt. Some banks may offer pre-mortgage programmes under which purchasers may secure a purchase of unfinished properties under construction with a pledge of a borrower’s right to unfinished property with no additional mortgage over any other real estate property owned by the borrower. Pre-mortgage programmes are only available to purchasers of apartments in selected developments, which are commonly specified in our agreements with the lending bank. As of 31 December 2010, we had entered into arrangements with VTB24 and Sberbank (the Krasnopresnensk branch), which offer pre-mortgage programmes to our customers in respect of flats in selected developments, primarily in the final stage of development. In accordance with market practice, we provide short-term guarantees to banks for the repayment of pre-mortgage loans offered to our customers. Our short-term guarantee is generally released within a period of time after the issuance of the individual property ownership certificate to the lender by the relevant government authority.

Mortgage lending is considerably less prevalent in Russia than in many developed economies. According to the CBR, as of 1 January 2010, the aggregate mortgage debt in Russia stood at RUB 1 trillion, or 2.5% of Russia’s GDP, as compared to 52% in the EU and 81% in the USA, as at the end of 2008, according to the European Mortgage Federation. The Russian residential mortgages market has been extremely volatile in recent years. According to the CBR, the aggregate amount of new mortgage loans made to Russian borrowers in 2008 (at the 31 December 2008 RUB/U.S. dollar exchange rate) was approximately USD 25 billion, which is more than twelve times the aggregate amount of new mortgage loans made to Russian borrowers in 2004. However, as a result of the recent economic downturn and deterioration of the mortgage-backed securities markets, the amount of new mortgages in 2009 shrank to USD 6 billion (at the 31 December 2009 RUB/U.S. dollar exchange rate). In line with this market trend, the share of our apartment sales that was financed by pre-mortgage and mortgage bank loans shrank from approximately 10% in 2007 to approximately zero in 2009. With the beginning of the recovery of the Russian mortgage market in 2010, the share of our apartment sales financed by mortgage facilities increased to approximately 5% in 2010.

Sales and Marketing

We have an extensive sales and marketing network, which, as of 31 December 2010, comprised a team of approximately 160 employees, ten sales offices in the St. Petersburg Metropolitan Area and an additional ten sales offices nationwide. We also engage external professional marketing and sales service agents located nationwide. Through this platform, our marketing and sales activities cover 30 cities across Russia.

The map of Russia set out below shows the cities in which our sales offices and external sales agents are located as of the date of this prospectus.



Seeking to capitalise on continued population migration from Russian regional areas to the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, our marketing strategy targets prospective buyers located in the regions with the highest disposable income, which are primarily Russia's remote and climatically unfavourable areas rich in natural resources. As of 31 December 2010, we sold flats to purchasers located in nine of the ten richest regions in Russia, as measured by disposable income. With increased wealth tied to increased mobility, these prospective buyers are seeking to relocate to the areas with better standard of living and quality of life. Our nationwide marketing and sales network enables us to connect regional market demand with high quality and a competitively priced comfortable living environment offered by our products. Our targeted marketing efforts and solid record of consistent delivery of quality products allowed us to achieve strong name brand recognition nationwide and substantially expand our customer base outside our core markets. As a result, we enjoy strong regional pre-sales and sales that accounted for approximately 27.9% of total contracts concluded in 2010.

The table below summarises geographic distribution of our regional sales in 2010 and corresponding disposable incomes.

<u>Region</u>	<u>2010</u>	<u>3Q 2010</u>
	<u>Shares in sales⁽¹⁾</u> %	<u>Disposable income</u> USD
Nenets Autonomous District	0.2	1,247
Yamalo-Nenets Autonomous District	2.0	1,084
Sakhalin region	1.2	1,025
Khanty-Mansijsk Autonomous District	3.2	995
Kamchatsky Krai	1.9	866
Magadan region	0.9	841
Republic of Sakha (Yakutia)	0.6	789
Leningrad region	3.9	474
Other Russian regions	9.9	n/a
Total regional sales	<u>27.9</u>	<u>—</u>
Moscow	4.9	1,343
St. Petersburg	63.5	873
Moscow region	3.1	732
Foreigners	0.6	n/a
Total sales	<u>100.0</u>	<u>—</u>

Source: Company data, Rosstat

(1) Share of total concluded pre-sales and sales contracts.

Our comprehensive marketing approach adds value throughout all stages of the development process, which results in wide exposure of our products and brand to the target audience. As part of our land acquisition strategy and project design activities, our marketing team conducts market research on preferences of potential customers, assists in formulating the stylistic direction of a particular project and its signature identity, conducts feasibility studies based on market analysis and determines appropriate advertising and sales plans for a particular development.

Once a development project is ready to enter the sales phase, our sales professionals generally establish sales offices on-site for each development project and provide prospective buyers with a presentation of the architectural, design and construction aspects of the project, as well as with information on the surrounding community and amenities, recommend appropriate units based on their purchase criteria and accompany the prospective buyers to tour the model units and project amenities.

In addition to on-site show rooms, we use multiple other channels to market our residences, such as on-site billboards, the Internet, cross street banners, distribution of leaflets in neighbouring areas, corporate sponsorship of events, general and specialised press, radio and television. Our marketing professionals attend commercial exhibitions and are frequent speakers at seminars and conferences related to real estate. They continuously monitor customer feedback to enable the sales personnel and developers to adjust strategies for the sales of unsold units as well as the construction and sale of the units to be built.

Property Management and Operation Services

Once construction is completed, we provide on-going property management and operation services to most of our residential developments.

Our comprehensive property management services range from day-to-day general maintenance for common areas of properties and facilities, to exterior building maintenance, landscaping, repair services and building equipment installation. Further, we provide the infrastructure for utilities such as water, electricity, ventilation, heating and sewage within the walls of the complex up to the point at which they connect with adjacent publicly maintained infrastructure. We also provide security services for each building we manage, including video surveillance, access control systems and alarm systems.

We provide a number of other management services, including title registration and retention of title documents, collecting fees for utility companies and organising and supervising contractors. We also organise various

accounting documentation, draft and implement building budgets and arrange payment of relevant charges and taxes.

We believe that retaining control over management of our properties following the completion of construction enables us to maintain the quality of our residential complexes on a long-term basis, gather feedback on our development and enhance our reputation for quality housing communities. This also provides a strong selling point for additional phases in the same development and for other residential complexes.

Portfolio Projects

As of 31 December 2010, we had 28 portfolio projects at various stages of development. We characterise these projects as being part of our portfolio where we have secured all necessary legal rights to complete these projects, or, with respect to projects at early stage of development, based on our expectation that we will be able to secure all necessary legal rights to complete these projects as well as our past experience in progressing early-stage projects to completion. The stages of the portfolio development process are classified into the following three categories:

- *Completed:* the final phase, where relevant regulatory authority approvals have been obtained, construction has been completed and the development is operational; completed projects remain in our portfolio until they have been fully sold;
- *Under construction:* this phase usually commences on receipt of the required construction permit from the relevant regulatory authorities and continues through the period of construction until the development becomes fully operational. As some projects comprise multiple phase developments on a rolling basis, a single project may include a number of phases that are completed, still under construction or in the design stages. For the purposes of this section of the prospectus, a project comprising multiple phases is considered to be a project under construction if the required construction permit from the relevant regulatory authority is received with respect to at least one phase of the development; and
- *Design stage:* the preliminary phase, which commences when we expect that we will be able to secure all legal rights necessary to complete the project, and which continues until the construction permit is obtained.

As of 31 December 2010, our project portfolio comprised an aggregate site area of approximately 205.2 hectares and aggregate unsold net sellable area of approximately 3.1 million square metres, with approximately 52.5% of the portfolio's total unsold net sellable area comprising residential projects in the design stage, 45.8% comprising residential projects under construction, 1.1% comprising completed residential projects with unsold units and 0.6% comprising standing commercial property. With a view to secure predictable cash flow generation, we believe our portfolio has a well-balanced schedule of completions over the next six years, balancing between new projects and construction costs in the context of average project construction cycle. In the long term, our strategy is to maintain the same level of turnover cycle of seven to nine years.

The table below sets forth the stages of our portfolio development projects as of 31 December 2010:

<u>Category</u>	<u>Number of projects</u>	<u>Market Value of our beneficial share</u>	
		<u>Unsold NSA</u> thousand sq. m.	<u>mln USD</u>
Residential, completed with unsold units	12	33.6	54.4
Residential, under construction	6	1,434.9	836.3
Residential, design stage	7	1,643.2	473.9
Standing commercial property	3	20.0	51.8
Total	28	3,131.7	1,416.4

Source: Valuation Report

As of 31 December 2010, our portfolio projects were distributed between the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area, accounting for approximately 64.4% and 35.6% of the project portfolio's total unsold net sellable area, respectively. Subject to the assumptions set out in the Valuation Report, our beneficial interest in the portfolio amounted to USD 1.4 billion (RUB 42.7 billion) as of 31 December 2010.

The following table sets forth our portfolio projects by location as of 31 December 2010:

<u>Location</u>	<u>Number of projects</u>	<u>Unsold NSA</u> thousand sq. m.	<u>Market Value of our beneficial share</u> mln USD
St. Petersburg Metropolitan Area	26	2,015.5	1,066.4
Moscow Metropolitan Area	<u>2</u>	<u>1,116.2</u>	<u>350.0</u>
Total	<u>28</u>	<u>3,131.7</u>	<u>1,416.4</u>

Source: Valuation Report

Portfolio Projects

Information on the project portfolio properties is provided in the table below, as extracted from the Valuation Report. For a more detailed description of these projects, see the full Valuation Report.

PROJECT PORTFOLIO OVERVIEW

Residential Real Estate Projects

No.	Name	Location	Site area ha	NSA ⁽¹⁾		Parking Unsold/ Unleased Lot	Stage of development ⁽²⁾	Estimated completion date ⁽³⁾ year	Q4 2010 average market sale prices/ Market sale prices for parking ⁽⁴⁾ USD/sq. m. USD/lot		Construction budget ⁽⁵⁾ mln USD	Estimated outstanding construction costs ⁽⁶⁾ mln USD	Outstanding payments for the areas sold mln USD	Estimated outstanding social infrastructure costs ⁽⁶⁾ mln USD	Valued interest ⁽⁷⁾ %	Market Value ⁽⁸⁾ mln USD
				Total	thousand sq. m											
Projects under development																
1.	Emerald Hills	MMA	80.0	868.0	846.7	4,773	Under construction	2011-2016	Residential: 1900 Commercial: 2,000 Parking: 20,000	1,072.0	1,019.8	32.7	117.0	97% - residential premises; 100% - commercial premises	257.6	
	<i>Phase 1</i>			97.6			<i>Under construction</i>	2011								
	<i>Phase 2</i>			108.1			<i>Under construction</i>	2012								
	<i>Phase 3</i>			213.7			<i>Design</i>	2013								
	<i>Phase 4</i>			179.2			<i>Design</i>	2014								
	<i>Phase 5</i>			147.8			<i>Design</i>	2015								
	<i>Phase 6</i>			121.7			<i>Design</i>	2016								
2.	Etalon-City ⁽⁹⁾	MMA	11.2	269.5	269.5	2,022	Design	2013-2014	Residential: 3000 Parking: 30,000	371.5	371.5	n/a	10.5	93.15% - residential premises; 100% - commercial premises	92.4	
	<i>Phase 1</i>			124.8			<i>Design</i>	2013								
	<i>Phase 2</i>			144.8			<i>Design</i>	2014								
3.	Jubilee Estate	SPMA	35.4	601.8	376.5	2,201	Under construction	2009-2012	Residential: 2,000 Parking: 19,000	737.7	207.8	68.8	61.8	100%	415.8	
	<i>Phase 1</i>			367.9			<i>Completed</i>	2009								
	<i>Phase 2</i>			136.7			<i>Under construction</i>	2011								
	<i>Phase 3</i>			97.2			<i>Under construction</i>	2012								
4.	Talisman	SPMA	0.5	14.6	8.2	110	Under construction	2011	Residential: 3,600 Parking: 36,000	20.4	4.9	6.8		100%	19.4	
5.	Prestige	SPMA	0.4	21.1	20.0	96	Under construction	2012	Residential: 3,580 Parking: 38,700	36.2	29.1	2.1		100%	26.0	
6.	Etude	SPMA	0.4	22.7	15.0	138	Under construction	2012	Residential: 2,300 Commercial: 1,770 Parking: 18,250	28.2	22.0	8.7		100%	11.0	

No.	Name	Location	Site area ha	NSA ⁽¹⁾		Parking Unsold/ Unleased Lot	Stage of development ⁽²⁾	Estimated completion date ⁽³⁾ year	Q4 2010 average market sale prices/ Market rate prices for parking ⁽⁴⁾ USD/sq. m. USD/lot	Construction budget ⁽⁵⁾ mln USD	Estimated outstanding construction costs ⁽⁶⁾ mln USD	Outstanding payments for the areas sold mln USD	Estimated outstanding social infrastructure construction costs ⁽⁶⁾ mln USD	Valued interest ⁽⁷⁾ %	Market Value ⁽⁸⁾ mln USD
				Total thousand sq. m	Unsold/ Unleased										
7.	Orbit	SPMA	6.9	207.4	168.5	926	Under construction	2011-2012	Residential: 2,360 Commercial: 2,190 Parking: 22,700; 16,800	243.6	191.5	30.7		100%	106.5
	Phase 1			70.1			Under construction	2011							
	Phase 2			137.3			Under construction	2012							
8.	Oktyabrskaya embankment, 118	SPMA	13.1	319.0	319.0	2,182	Design	2013-2014	Residential: 1,800 Commercial: 1,770 Parking: 17,000	375.8	375.8			100%	42.2
	Phase 1			28.3			Design	2013							
	Phase 2			290.7			Design	2014							
9.	Smolenskaya street, 9	SPMA	1.8	70.0	70.0	257	Design	2013	Residential: 2,600 Parking: 20,000	106.6	106.6			100%	26.4
10.	Obukhovskoy oborony prospect, 110	SPMA	3.6	101.1	101.1	746	Design	2013-2015	Residential: 2,300 Commercial: 2,100 Parking: 19,000	134.3	134.3			100%	28.0
	Phase 1			50.0			Design	2013							
	Phase 2			51.1			Design	2015							
11.	Uralskaya street, 2	SPMA	7.0	165.4	165.4	600	Design	2014	Residential: 2,900 Commercial: 2,500 Parking: 28,800	306.6	306.6		2.9	100%	48.3
	Phase 1			90.0			Design	2014							
	Phase 2			75.4			Design	2014							
12.	Kremenchugskaya street, 11	SPMA	20.8	459.1	459.1	1,638	Design	2014-2016	Residential: 3,300 Parking: 45,000	789.4	789.4		5.9	78%	125.8
	Phase 1			50.0			Design	2014							
	Phase 2			200.0			Design	2015							
	Phase 3			209.1			Design	2016							
13.	Moskovsky prospect, 115	SPMA	12.0	259.0	259.0	1,286	Design	2015-2016	Residential: 2,800 Parking: 25,000	431.3	431.3		11.6	100%	110.8
	Phase 1			150.0			Design	2015							
	Phase 2			109.0			Design	2016							
	Sub-total			193.1	3,378.7	3,078.1									1,310.2

No.	Name	Location	Site area ha	NSA ⁽¹⁾		Parking Unsold/ Unleased	Lot	Stage of development ⁽²⁾	Estimated completion date ⁽³⁾ year	Q4 2010 average market sale prices/ Market rate prices for parking ⁽⁴⁾		Construction budget ⁽⁵⁾ mln USD	Estimated outstanding construction costs ⁽⁶⁾ mln USD	Outstanding payments for the areas sold mln USD	Estimated outstanding social infrastructure construction costs ⁽⁶⁾ mln USD	Valued interest ⁽⁷⁾ %	Market Value ⁽⁸⁾ mln USD
				Total	Unsold/ Unleased					USD/sq. m.	USD/lot						
Completed projects																	
14.	Sea Cascade	SPMA	n/a	120.9	1.6	44	Completed	2006	Parking: 27,180	—	—	—	0.2	—	—	100%	1.5
15.	Sea Facade	SPMA	n/a	237.4	0.5	11	Completed	2006	Parking: 24,499	—	—	—	0.7	—	—	100%	1.1
16.	Near Rostral Columns	SPMA	n/a	69.2	0.7	19	Completed	2007	Parking: 54,112	—	—	—	0.1	—	—	100%	1.2
17.	Petrogradsky Etalon	SPMA	1.7	33.2	1.7	49	Completed	2008	Residential: 3,400 Parking: 44,500	—	—	—	2.1	—	—	100%	4.1
18.	Oktyabrskaya Embankment	SPMA	n/a	21.5	0.1	—	Completed	2007	Commercial: 1,600	—	—	—	—	—	—	100%	0.2
19.	Rainbow	SPMA	n/a	142.8	9.2	79	Completed	2009-2010	Residential: 2,320 Commercial: 1,910 Parking: 21,170 Storage: 2,880	—	8.0	—	18.4	—	—	100%	18.8
20.	Polezhaevskiyе Houses	SPMA	0.8	21.8	5.2	145	Completed	2008	Fitness Centre: 1,270 Commercial: 1,500 Parking: 13,052	—	—	—	2.2	—	—	100%	4.4
21.	Golden Bay	SPMA	7.5	215.9	2.9	97	Completed	2008	Residential: 2,400 Parking: 32,500	—	—	—	3.9	—	—	100%	6.6
22.	Grazhdanka City	SPMA	n/a	46.3	2.0	61	Completed	2007	Commercial: 440 Parking: 23,800; 14,280	—	—	—	0.2	—	—	100%	1.3
23.	Grazhdanka City-2	SPMA	n/a	40.7	0.8	23	Completed	2007-2010	Residential: 2,390 Parking: 23,100	—	—	—	0.2	—	—	100%	0.8
24.	New Constellation	SPMA	n/a	118.1	8.5	258	Completed	2008	Residential: 2,520 Commercial: 2,240 Parking: 24,100	—	—	—	5.2	—	—	100%	10.5
25.	Invigorating Stream	SPMA	n/a	54.2	0.4	9	Completed	2008	Residential: 2,520 Parking: 26,800	—	—	—	4.3	—	—	100%	4.0
Sub-total				9.9	1,100.7	33.6											
Total				203.0	4,500.7	3,111.7											

Notes:

(1) NSA refers to the net sellable/leasable area, including parking lots (calculated assuming an average area of a parking lot of 30 square metres) in the case of the projects under development and to the net sellable/leasable area, excluding parking lots, in the case of completed projects.

(2) For a detailed explanation of our classification of various stages of development, see “— Portfolio Projects” above.

- (3) The estimated completion dates and the volumes of net sellable area scheduled to be commissioned on a year by year basis, including residential, commercial and parking spaces, represent our own estimates. According to the Valuation Report, in the professional opinion of JLL, our commissioning plan is reasonable. Ultimately, our estimated commissioning dates and volumes may differ from actual levels achieved in the future.
- (4) Commercial space and parking space sale prices are exclusive of VAT.
- (5) Construction budget includes social infrastructure costs.
- (6) In terms of the construction budget, estimated outstanding construction costs and estimated outstanding social infrastructure construction costs, JLL took into account budgeted costs provided by us, then current construction rates passing in the market, which a prospective purchaser may deem appropriate to adopt in constructing each individual scheme. Although in some instances, JLL has adopted the budgeted costs provided to us by us, in some cases JLL has opted to use its opinions of costs. JLL's opinions as to costs have been arrived at on the basis of its experience of valuation of similar properties and on the basis of the cost information obtained from other developers, rather than from a qualified cost consultant.
- (7) Valued Interest refers to our share of the total NSA of a project upon completion of the acquisition process.
- (8) The Market Value of each of our key projects is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after the proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. For a full discussion of how the Market Value is determined and for more information on the types of costs that are included in the JLL's cost estimate see the Valuation Report and "— Valuation of Our Properties".
- (9) Subject to a preliminary sale and purchase agreement. See "*Business — Residential Development — Description of our Portfolio Projects*".

Commercial Real Estate Projects

No	Name	Location	Site area ha	NSA ⁽¹⁾		Parking	Stage of development ⁽²⁾	Completion date year	Estimated market rental m ² USD per annum, excluding VAT	Outstanding payments for areas sold m ² USD	Q4 2010 market rental rates/ Market sale prices for parking ⁽³⁾ USD/sq. m./year USD/sq. m,	Valued interest ⁽⁴⁾ %	Market Value ⁽⁵⁾ mln USD
				Total thousand sq. m	Unsold/ Unleased thousand sq. m								
1.	Smolenka River Business Centre	SPMA	0.4	9.0	6.8	61	Completed	2009	2.3	0.3	100	10.6	
2.	Stock Exchange Business Centre	SPMA	0.4	21.3	4.0	—	Completed	2009	—	6.2	100	16.4	
3.	AURA Trading and Exhibition Centre	SPMA	1.3	9.2	9.2	—	Completed	2008	3.5	—	100	24.8	
Total			2.1	39.5	20.0							51.8	

Notes:

- (1) The total NSA refers to the total net sellable/leasable area, excluding parking lots. The unsold NSA refers to the unsold sellable/leasable area, including parking lots assuming an average area of a parking lot of 30 square metres.
- (2) For a detailed explanation of our classification of various stages of development, see “— *Portfolio Projects*” above.
- (3) Commercial sale prices, parking sale prices and market rental rates for commercial spaces are exclusive of VAT.
- (4) Valued Interest refers to our legal share of the total NSA of a project upon completion of the acquisition process.
- (5) The Market Value of each of our key projects is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after the proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. For a full discussion of how the Market Value is determined and for more information on the types of costs that are included in the JLL’s cost estimate see the Valuation Report and “— *Valuation of Our Properties*”.

Description of our Portfolio Projects

A summary description of each of our portfolio projects is set out below as of 31 December 2010, unless otherwise indicated.

The Market Value of each of our portfolio projects indicated below is assessed by JLL as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after the proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The Estimated Market Rental Value of each of our commercial real estate portfolio projects is defined as the current income or income estimated by the valuer: (i) ignoring special receipts or deductions arising from the property; (ii) excluding VAT and before taxation (including tax on profit and any allowances for interest on capital or loans); and (iii) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a good condition to command its rent.

For a full discussion of how the Market Value and Estimated Market Rental Value are determined and for more information on the types of costs that are included in the JLL's cost estimate see the Valuation Report and "*— Valuation of Our Properties.*" For a full discussion of the portfolio projects, valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by JLL that is included in Annex A to this prospectus.

Residential Real Estate Projects

Emerald Hills — Moscow region (the city of Krasnogorsk, Aninskaya street)

Description:

Emerald Hills is an economy class residential complex, located in Krasnogorsk, the administrative centre of the Krasnogorsky district, which is in the northwest part of the Moscow region. The project envisages 31 buildings, including 20 16-25-storey residential buildings, and underground parking, constructed using poured concrete technology with brick elements and ventilated facades. The project also envisages construction of a significant amount of consumer-oriented commercial and social infrastructure, including schools, kindergartens, health care facilities, banks, sports facilities and hotels. The development will feature underground and above-ground parking, children playgrounds and vast "green" areas.

The location benefits from an established social and commercial infrastructure, including hypermarkets, medical clinics, a stadium with an ice-skating ring, the Le Meridien Moscow Country Club and a year-round ski resort. The development is located in the Opalikha micro-district, which is approximately nine kilometres from MKAD along the Volokolamskoye highway, the main thoroughfare of Krasnogorsk. The development is within 23 kilometres from the centre of Moscow and 20 minutes by public transportation from Tushinskaya metro station.

The development envisages a total site area of approximately 80.0 hectares with a total net sellable area of approximately 868,034 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Emerald Hills development at USD 257.6 million. We have a 97% share of the residential area and 100% share of the non-residential area in the project.

Legal rights:

The rights to the project land, which consists of 71 land plots, is currently held by our subsidiary Zatonskoye. Three land plots are held in freehold, with the title to each of the land plots registered with the Main Directorate of the Federal Registration Service for the Moscow region on 30 June 2005, 28 October 2005 and 30 March 2006, respectively. The remaining 68 land plots are held in leasehold until the project's completion pursuant to the investment agreement and several lease agreements described below.

Investment agreement

On 26 July 2004, Zatonskoye, the Moscow Regional Government and Administration of Krasnogorsk entered into an investment agreement relating to the development of the Emerald Hills project. Pursuant to the terms of the investment agreement, our obligations include, but are not limited to:

- Provide financing for the project;
- Provide partial financing for construction and reconstruction of certain engineering infrastructure;
- Construct the Emerald Hills development and obtain requisite operational permits;
- At our own expense, demolish the existing buildings located on the development plot and arrange permanent relocation of the individuals residing in these buildings as of the date of the investment agreement; and
- Finance the relocation of an automotive park and business enterprise located on the development plot to an alternative location.

The investment agreement provides for the following distribution of ownership rights to the Emerald Hills development upon completion of the construction:

- The Moscow Region Government will obtain ownership of 3% of the total residential area of the development and 100% of the total area of social infrastructure, including schools and kindergartens; and
- We will obtain ownership of 97% of the total residential area of the development and 100% of the total non-residential area of the development (excluding the social infrastructure described above).

For more details see “*Material Contracts — Other Agreements*”.

Lease agreements

Pursuant to the lease agreements dated 10 November 2006, the Moscow Regional Government granted Zatonskoye a lease right for a term of 49 years in respect of set of land plots with a total area of 68.7 hectares for the purposes of construction of the Emerald Hills development. Further, the ownership rights to the project land plots were transferred to the Administration of Krasnogorsk, which assumed the rights and obligations of the landlord under the lease agreements.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the Krasnogorsk land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings and the objects of infrastructure. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

The project presently is in the construction state of development.

We began development of this project in 2008, which is divided into six phases:

- The first phase comprises a total net sellable area of approximately 97.6 thousand square metres and is currently under construction.

- The second phase comprises a total net sellable area of approximately 108.1 thousand square metres and is currently under construction.
- The third phase is expected to comprise a total net sellable area of approximately 213.7 thousand square metres and is currently in the design stage.
- The fourth phase is expected to comprise a total net sellable area of approximately 179.2 thousand square metres and is currently in the design stage.
- The fifth phase is expected to comprise a total net sellable area of approximately 147.8 thousand square metres and is currently in the design stage.
- The sixth phase is expected to comprise a total net sellable area of approximately 121.7 thousand square metres and is currently in the design stage.

We are currently conducting construction on unoccupied land plots. We expect to begin demolition of the existing buildings located on the development plots and relocation of the individuals residing in these buildings in 2012 and complete it in 2015.

We commenced pre-sales of flats and parking spaces in the end of 2008. As of 31 December 2010, approximately 846,678 square metres of net sellable area remained unsold, including approximately 593,759 square metres of flats, approximately 72,192 square metres of commercial space and 4,773 parking spaces.

Key steps to completion:

We expect to complete construction of the first phase in 2011 and the second phase in 2012. Upon completion of the construction of each phase, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Once the design documentation for the third, fourth, fifth and sixth phases is approved, we will need to apply for the construction permits that will allow us to commence construction. Subject to market conditions and approval of the design documentation by the relevant government authorities, construction of the third phase is expected to be completed in 2013, the fourth phase is expected to be completed in 2014, the fifth phase is expected to be completed in 2015 and the sixth phase is expected to be completed in 2016.

We estimate the construction budget for the development to be approximately USD 1,072.0 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 1,019.8 million of which the outstanding social infrastructure construction costs to be approximately USD 117.0 million. The outstanding payments for the areas sold were approximately USD 32.7 million as of 31 December 2010.

Etalon-City — Moscow (South Butovo, Starokrymskaya street, 13)

Description:

Etalon-City is an economy class residential complex, located in the South Butovo sub-district of the South-Western Administrative District of Moscow. The development envisages 11 buildings, constructed using poured concrete technology with brick elements and ventilated facades, comprising residential buildings with commercial premises, underground parking and social infrastructure.

South Butovo is a well-developed residential district of Moscow that benefits from good ecological conditions, although car accessibility from the city centre is problematic during peak traffic hours due to heavy traffic congestion. The site adjoins the intersection of Polyany and Starokrymskaya streets, bordering it on the west and north, respectively. To the south are multi-storey residential complexes while to the west, north and east of the development are forests.

The development envisages a total site area of approximately 11.2 hectares with a total net sellable area of approximately 269,517 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Etalon City development at USD 92.4 million. We have a 93.15% share of the residential area and 100% share of the non-residential area in the project.

Legal rights:

The project land, which consists of two land plots, is currently held by our subsidiary Daikar in leasehold until the project's completion pursuant to the investment agreement and several lease agreements described below.

Investment agreement

On 19 May 2004, Daikar and Federal State Unitary Enterprise "Radiochastotniy Center Tsentralnogo Federalnogo Okruga" ("FGUP RC") entered into an investment agreement relating to the development of the Etalon-City project. Pursuant to the terms of the investment agreement, FGUP RC is obligated to contribute to the Etalon-City development an investment in the amount of approximately USD 10 million, comprising 11 residential and two non-residential premises, and a land plot for construction. Our obligations under the investment agreement include, but are not limited to:

- Provide financing for the development in the amount not less than USD 134 million;
- Construct the Etalon-City development (including social infrastructure, such as a fitness centre, and engineering infrastructure) and obtain an operational permit no later than December 2014;
- At our own expense, arrange relocation to a suitable location (including conducting a feasibility study) and modernisation of a radio-control station located on the development; and
- At our own expense, demolish the existing buildings located on the development plot and arrange permanent relocation of the individuals residing in these buildings as of the date of the investment agreement.

The investment agreement provides for the following distribution of ownership rights to the Etalon-City development upon completion of the construction:

- The Russian Government will obtain ownership of 6.85% (but not less 10 thousand square metres) of the total residential area of the development, 100% of the total area of engineering and social infrastructure, including a fitness centre, and results of the relocation and modernisation of the radio-control station; and
- We will obtain ownership of 93.15% of the total residential area of the development and 100% of the total non-residential area of the

development (excluding the social and engineering infrastructure described above).

For more details see “*Material Contracts — Other Agreements*”.

Lease agreements

Pursuant to the lease agreements dated 17 August 2010, the Moscow Government granted Daikar a lease right in respect of two land plots with a total area of 11.2 hectares for the purposes of construction of the Etalon-City development. The lease expires on 31 December 2014.

Share and purchase agreements

As of the date of this prospectus, our subsidiary SSMO LenSpetsSMU held a 95% participation interest in Daikar. In addition, SSMO LenSpetsSMU also entered into a preliminary sale and purchase agreement with M&L Development LLC in relation to an acquisition of a further 5% in the charter capital of Daikar. According to this agreement, SSMO LenSpetsSMU shall enter into a final agreement on sale and purchase of a 4% share in Daikar with M&L Development LLC upon a governmental approval of the town-planning and design documentation with respect to Etalon-City development. The total payment for this 4% share in Daikar shall be executed in accordance with the following formula: SSMO LenSpetsSMU to transfer to M&L Development LLC 20% of the total net area in the residential complex, excluding areas transferred to the federal property, property of Moscow, social objects and (or) property of FGUP RC, property of settled inhabitants and also except for the amount of USD 20 million. In addition, the remaining 1% of the charter capital of Daikar shall be transferred to SSMO LenSpetsSMU upon registration of its ownership rights to the premises of the Etalon-City development under the co-investment agreement dated 2 June 2008 and subsequent transfer of these rights to the premises to M&L Development LLC.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the Moscow land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

Presently, we are in the design stage of the project.

We began development of this project in 2010, which is divided into two phases:

- The first phase comprises a total net sellable area of approximately 124.8 thousand square metres and is currently in the design stage.
- The second phase comprises a total net sellable area of approximately 144.8 thousand square metres and is currently in the design stage.

Key steps to completion:

Subject to market conditions and approval of the design documentation by the relevant government authorities, construction of the first phase is expected to commence in 2011 and the second phase in 2012. We expect to complete construction of the first phase in 2013 and the second phase in the fourth quarter of 2014. Upon completion of the construction of each phase, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

We estimate the construction budget for the development to be approximately USD 371.5 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 371.5 million of which the outstanding social infrastructure construction costs to be approximately USD 10.5 million.

Jubilee Estate — St. Petersburg (Komendantsky prospect, 51/1, 53/2, 53/3, 53/4, Shuvalovsky prospect 41/1)

Description:

Jubilee Estate is an economy class residential complex, located in the Primorsky district, one of the largest districts of St. Petersburg. The complex envisages 13 residential buildings of up to 25 floors with multi-level underground parking, constructed using poured concrete technology with brick accents and ventilated facades. The ground floors of the residential buildings will be occupied by consumer-oriented commercial premises. The complex will also feature children playgrounds, guest parking and recreational areas.

The development is in close proximity to Komendantsky prospect metro station and major roadways, including Komendantsky prospect, Shuvalovsky prospect, the city's ring road and the Western High-Speed Diameter. The area has well-developed social and commercial infrastructure and a reliable transport network.

The development occupies a total site area of approximately 35.4 hectares with a total net sellable area of approximately 601,758 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Jubilee Estate development at USD 415.8 million. We have a 100% share in the project.

Legal rights:

The development site consists of 44 land plots. Our subsidiary SSMO LenSpetsSMU holds a freehold title to all land plots underlying the residential buildings. The titles to the land plots were registered with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region in 2005. As of the date of this prospectus, we were in the process of transferring ownership rights to land plots to be used for construction of objects of social infrastructure to the St. Petersburg Government.

Financing arrangements

In 2005, we established a credit facility with Sberbank to acquire the land plots under the Jubilee Estate development. As a security for the loan, we mortgaged the project land. In 2006, we paid the credit back and the mortgage has been released.

On 6 August 2010, we established a EUR 39 million credit facility with Alfabank to finance further construction of the development. As a security for the loan, we have mortgaged one of the project's land plots with a total area of 1.8 hectares. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Liquidity — Major credit agreements*".

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-apartment residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

Presently, we are in the construction stage of the project.

We began development of this project in 2005, which is divided into three phases:

- The first phase comprises a total net sellable area of approximately 367.9 thousand square metres. We completed construction of the first phase in 2010 and obtained operational permits from the relevant government authorities between 2009 and 2010. We are currently selling flats and parking spaces in buildings comprising the first phase.
- The second phase comprises a total net sellable area of approximately 136.7 thousand square metres and is currently under construction.
- The third phase is expected to comprise a total net sellable area of approximately 97.2 thousand square metres and is currently under construction.

We commenced pre-sales of flats and parking spaces in 2006. Flats in one of the buildings are sold under cost sharing agreements. As of 31 December 2010, approximately 376,509 square metres of net sellable area remained unsold, including approximately 295,683 square metres of flats, approximately 15,146 square metres of commercial space and 2,201 parking spaces.

Key steps to completion:

We expect to complete construction of the second phase in 2011 and the third phase in 2012. Upon completion of the construction of each phase, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

We estimate the construction budget for the development to be approximately USD 737.7 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 207.8 million of which the outstanding social infrastructure construction costs to be approximately USD 61.8 million. The outstanding payments for the areas sold were approximately USD 68.8 million as of 31 December 2010.

Talisman — St. Petersburg (Vasilievsky Island, 15 line, 76, lit. A)

Description:

Talisman is a middle class residential complex, located in the historic Vasileostrovsky district of St. Petersburg. The complex will consist of four 2-11-storey buildings sharing a common platform, constructed using poured concrete technology and featuring the architectural style of the late 19th century. Three buildings are expected to house residential units with the ground floors of the buildings will be occupied by consumer-oriented commercial premises and parking. The fourth building is expected to house commercial premises.

The development is located in one of the most attractive and quiet areas of the city centre in close proximity to numerous historical and cultural landmarks, including the Twelve Colleges building, the Exchange “Saint-Petersburg”, the Library of the Academy of Sciences, Manezh Cadet Corps and numerous prestigious educational institutions, including Saint-Petersburg State University, the Academy of Fine Arts, the Mountain Institute, and Admiral Makarov State Maritime Academy. The area also houses prominent private and public medical clinics, the Theatre of Satire, the Lenexpo exhibition complex, and one of the largest aquatic parks, the Waterville. While the nearest metro station, Vasileostrovskaya, is within a 15-minute walking distance, the district’s transportation infrastructure is

inadequate, which negatively impacts further development. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site. Typically, it takes approximately 15 minutes by car to reach the city centre.

The development occupies a total site area of approximately 0.5 hectares with a total net sellable area of approximately 14,599 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Talisman development at USD 19.4 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU obtained a freehold title to the land plot comprising the development site, which was registered with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region on 21 May 2007.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

The Talisman project is situated within the preservation zone of St. Petersburg, and, accordingly, is subject to the development restrictions that apply within this zone. See “*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*”.

Stage of development:

The project presently is in the construction state of development.

We began development of this project in 2007 and commenced construction in 2008.

We commenced pre-sales of flats and parking spaces in 2009. As of 31 December 2010, approximately 8,158 square metres of net sellable area remained unsold, including approximately 2,538.5 square metres of flats, approximately 2,039.9 square metres of commercial space and 110 parking spaces.

Key steps to completion:

We expect to complete construction of the project in the third quarter of 2011. Upon completion of the construction, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

We estimate the construction budget for the development to be approximately USD 20.4 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 4.9 million. The outstanding payments for the areas sold were approximately USD 6.8 million as of 31 December 2010.

Prestige — St. Petersburg (Vasilevsky Island, 26 line, 15, lit. A)

Description:

Prestige is a middle class residential complex, located in the historic Vasileostrovsky district of St. Petersburg. The complex will consist of a single 16-storey residential building with above-ground and underground parking, constructed using poured concrete technology with ventilated facades and ceramic granite. The ground floors of the residential building will be occupied by consumer-oriented commercial premises.

The development is located in one of the most attractive and quiet areas of the city centre in close proximity to numerous historical and cultural landmarks. The nearest metro station, Vasileostrovskaya, is within a 10-minute drive from the development. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site. It takes approximately 20 minutes by car to reach the city centre.

The development envisages a total site area of approximately 0.3 hectares with a total net sellable area of approximately 21,057 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Prestige development at USD 26.0 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU obtained a freehold title to the land plot comprising the development site, which was registered with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region on 30 December 2009.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

The Prestige project is situated within the preservation zone of St. Petersburg, and, accordingly, is subject to the development restrictions that apply within this zone. See “*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*”.

Stage of development:

Presently, we are in the construction stage of the project.

We began development of this project and commenced construction in 2010.

We commenced pre-sales of flats and parking spaces in 2010. As of 31 December 2010, approximately 20,012 square metres of net sellable remained unsold, including approximately 14,397.4 square metres of flats, approximately 1,979.9 square metres of commercial space and 96 parking spaces.

Key steps to completion:

We expect to complete construction of the project in the third quarter of 2012. Upon completion of the construction, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

We estimate the construction budget for the development to be approximately USD 36.2 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 29.1 million. The outstanding payments for the areas sold were approximately USD 2.1 million as of 31 December 2010.

Etude — St. Petersburg (Sedova street, 24, building 3, lit. A)

Description:

Etude is an economy class residential complex, located in the Nevsky district of St. Petersburg. The complex will consist of a single two-section 23-storey building, constructed using poured concrete technology. The ground floors of the residential buildings will be occupied by parking and consumer-oriented commercial premises.

The project envisages construction of children playgrounds, recreational and “green” areas. The complex is situated on Sedova street, which connects the Nevsky district to the city centre and is within a seven-minute walking distance from Elizarovskaya metro station. Buses to the central part of the city can be taken from a number of bus stops, located in the close proximity to the development.

The development envisages a total site area of approximately 0.4 hectares with a total net sellable area of approximately 22,723 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Etude development at USD 11.0 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU obtained a freehold title to the land plot comprising the development site and buildings located on the land plot, which was registered with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region on 13 April 2007.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

The Etude project is situated within the preservation zone of St. Petersburg, and, accordingly, is subject to the development restrictions that apply within this zone. See “*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*”.

Stage of development:

Presently, we are in the construction stage of the project.

We began development of this project in 2007 and commenced construction in 2008.

We commenced pre-sales of flats in 2010. As of 31 December 2010, approximately 14,981 square metres of net sellable area remained unsold, including approximately 10,841 square metres of flats. Sales of commercial premises and parking spaces have not yet commenced.

Key steps to completion:

We expect to complete construction of the project in the second quarter of 2012. Upon completion of the construction, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

We estimate the construction budget for the development to be approximately USD 28.2 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 22.0 million. The outstanding payments for the areas sold were approximately USD 8.7 million as of 31 December 2010.

Orbit — St. Petersburg (Gzhatskaya street, 29A, lit C, M, Nauki prospect, plot 1 (South from 17/3, lit. E)

Description:

Orbit is an economy class residential complex, located in the Kalininsky district of St. Petersburg. The complex is part of the larger Grazhdanka City-3 development, encompassing four additional residential complexes previously developed by us. The complex will comprise four 17-24-storey residential buildings, constructed using poured concrete technology with brick elements and ventilated

facades, including underground parking and two kindergartens. The ground floors of the residential buildings will be occupied by consumer-oriented commercial premises. The development will also feature children playgrounds, guest parking, recreational and “green” areas.

The complex is located in an attractive area next to Benoit Garden, Piskarevsky and Murinsky parks, and St. Petersburg’s largest park, Sosnovka. The development is within a 3-5 minute walking distance from Academicheskaya metro station and is within close proximity to Ruchyi railway station and major roadways. It takes approximately 30 minutes by car to reach the city centre.

The development envisages a total site area of approximately 6.9 hectares with a total net sellable area of approximately 207,405 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Orbit development at USD 106.5 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU obtained a freehold title to three land plots comprising the development site, which were registered with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region between 2007 and 2010.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

Presently, we are in the construction stage of the project.

We began development of this project in 2007, which is divided into two phases:

- The first phase comprises a total net sellable area of approximately 70.1 thousand square metres and is currently under construction.
- The second phase comprises a total net sellable area of approximately 137.3 thousand square metres and is currently under construction.

We commenced pre-sales of flats and parking spaces in the end of 2008. As of 31 December 2010, approximately 168,589 square metres of net sellable area remained unsold, including approximately 131,348 square metres of flats, approximately 9,461 square metres of commercial space and 926 parking spaces.

Key steps to completion:

We expect to complete construction of the first phase in 2011 and the second phase in the third quarter of 2012. Upon completion of the construction of each phase, we will need to obtain an operational permit from the relevant State authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

We estimate the construction budget for the development to be approximately USD 243.6 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 191.5 million. The outstanding payments for the areas sold were approximately USD 30.7 million as of 31 December 2010.

Oktyabrskaya embankment-118 — St. Petersburg (Oktyabrskaya embankment, 118)

Description:

Oktyabrskaya embankment-118 is an economy class residential complex, located in the Nevsky district of St. Petersburg. The development envisages ten buildings, constructed using poured concrete technology with brick elements and ventilated facades, including residential buildings with up to 25 floors, commercial premises and six free-standing parking buildings. The development will also feature children playgrounds, recreational and “green” areas.

The project is within close proximity to KAD, the city’s ring road. The nearest metro station is Proletarskaya, which can be reached by public transportation.

The development envisages a total site area of approximately 13.1 hectares with a total net sellable area of approximately 318,996 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Oktyabrskaya embankment-118 development at USD 42.2 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU obtained a freehold title to the two land plots comprising the development site and non-residential buildings located on the land plots on 22 December 2010.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land is for location of military objects. As of the date of this prospectus, we are in the process of changing the permitted use of the land to the land for the location of military objects. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

Presently, we are in the design stage of the project.

We began development of this project in 2010, which is divided into two phases:

- The first phase comprises a total net sellable area of approximately 28.3 thousand square metres and is currently in the design stage.
- The second phase comprises a total net sellable area of approximately 290.7 thousand square metres and is currently in the design stage.

Key steps to completion:

Once the design documentation for each phase is approved, we will need to apply for the construction permits that will allow us to commence construction. Subject to market conditions and approval of the design documentation by the relevant government authorities, construction of the first phase is expected to be completed in 2013 and the second phase in the fourth quarter of 2014.

We estimate the construction budget for the development to be approximately USD 375.8 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 375.8 million.

Smolenskaya street-9 — St. Petersburg (Smolenskaya street, 9)

Description:

Smolenskaya street-9 is an upper economy class residential complex, located in the Moscovsky district of St. Petersburg. The development envisages a single residential building with commercial premises and underground parking, constructed using poured concrete technology

with brick elements and ventilated facades. The development will also feature children playgrounds, recreational and “green” areas. The project is within a 5-7 minute walking distance from Frunzenskaya metro station.

The development envisages a total site area of approximately 1.8 hectares with a total net sellable area of approximately 70,000 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Smolenskaya street-9 development at USD 26.4 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU obtained a freehold title to the two land plots comprising the development site and non-residential buildings located on the land plots on 9 March 2011.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of industrial objects. As of the date of this prospectus, we were in the process of changing the permitted use of the land to the land for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

We began development of this project in 2011, which is currently in the design stage.

Key steps to completion:

Subject to market conditions and approval of the design documentation by the relevant government authorities, the construction is expected to be completed in fourth quarter of 2013.

We estimate the construction budget for the development to be approximately USD 106.6 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 106.6 million.

Obukhovskoy oborony prospect-110 — St. Petersburg (Obukhovskoy oborony prospect, 110)

Description:

Obukhovskoy oborony prospect-110 is an economy class residential complex, located in the Nevsky district of St. Petersburg. The development envisages ten buildings, constructed using poured concrete technology with brick elements and ventilated facades, including residential buildings, commercial premises and six free-standing parking buildings. The upper floors of the flats will benefit from panoramic views of the Neva river. The development will also feature children playgrounds, recreational and “green” areas.

The project is within close proximity to KAD, the city’s ring road and a 5-minute walking distance from Proletarskaya metro station. Buses to the central part of the city can be taken from a number of bus stops, located in the close proximity to the development.

The development envisages a total site area of approximately 3.6 hectares with a total net sellable area of approximately 101,138 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Obukhovskoy oborony prospect-110 development at USD 28.0 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU is currently in the process of acquiring ownership rights to the land plot and buildings. On 2 July 2010, SSMO LenSpetsSMU entered into a preliminary sale and

purchase agreement with Simtan Ventures Limited in relation to an acquisition of ownership rights to a land plot with a total site area of 3.6 hectares and non-residential buildings located thereon. As of the date of this prospectus, however, Simtan Ventures Limited has transferred its rights to the land plot and non-residential buildings to its beneficial owner, a private individual with whom we have a commercial understanding reflected in a non-binding term-sheet that provides he will transfer such rights to us in accordance with the same terms and conditions as provided in the aforementioned preliminary sale and purchase agreement. We should note, therefore, that the acquisition of the land plot and non-residential buildings from this private individual remains subject to execution of a sale and purchase agreement with such individual and registration of our ownership rights in respect of such land plot and non-residential buildings. We expect, however, to enter into the sale and purchase agreement in relation to the abovementioned ownership rights by June 2011. See “*Risk Factors — Risks Relating to Our Business — We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report*”.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

Presently, we are in the design stage of the project.

We began development of this project in 2010, which is divided into two phases:

- The first phase comprises a total net sellable area of approximately 50.0 thousand square metres and is currently in the design stage.
- The second phase comprises a total net sellable area of approximately 51.1 thousand square metres and is currently in the design stage.

Key steps to completion:

Once the ownership rights to the project land are obtained and the design documentation for each phase is approved, we will need to apply for the construction permits that will allow us to commence construction. Subject to market conditions and approval of the design documentation by the relevant government authorities, construction of the first phase is expected to be completed in 2013 and the second phase in 2015.

We estimate the construction budget for the development to be approximately USD 134.3 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 134.3 million.

Uralskaya street-2 — St. Petersburg (Uralskaya street, 2)

Description:

Uralskaya street-2 is a middle-class residential complex, located in the Vasileostrovsky district of St. Petersburg. The development envisages seven residential buildings, constructed using poured concrete technology with brick elements and ventilated facades, including seven residential buildings with up to nine floors, commercial premises and parking. The development will also feature a kindergarten, children playgrounds, recreational and “green” areas.

The proximity of the Vasleostrovsky district to the city centre makes it a prestigious location both for living and business. The district's transportation, however, is inadequate, which negatively impacts its further development. The nearest metro station, Vasileostrovskaya, is within a 15-minute drive from the property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site. Typically, it takes approximately 15 minutes by car to reach the city centre.

The development envisages a total site area of approximately 7.0 hectares with a total net sellable area of approximately 165,420 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Uralskaya street-2 development at USD 48.3 million. We have a 100% share in the project.

Legal rights:

Our subsidiary SSMO LenSpetsSMU is currently in the process of acquiring ownership rights to the several land plots and buildings located on these land plots comprising the development site. On 30 December 2010, SSMO LenSpetsSMU entered into a preliminary sale and purchase agreement with LLC Masterkom in relation to acquisition of the ownership rights to a land plot with a total site area of 0.7 hectares and a non-residential building located thereon. On the same date, SSMO LenSpetsSMU entered into a preliminary sale and purchase agreement with several private individuals to acquire ownership rights to six land plots with a total site area of 5.8 hectares and non-residential buildings located thereon. In accordance with the terms of these two preliminary sale and purchase agreements, we anticipate to enter into respective principal sale and purchase agreements in relation to abovementioned ownership rights by 1 September 2011 and 7 September 2011, respectively. We should note, however, that the acquisition of the land plots and non-residential buildings from private individuals is subject to them procuring proper formation of the boundaries of the land plots and registration of their ownership rights to these assets with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region, the performance of which is secured by return of earnest money, which, in turn, is secured by a mortgage of the non-residential buildings located on the land plots in question. The mortgage is provided by a third party who currently holds ownership rights to these buildings. See *“Risk Factors — Risks Relating to Our Business — We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report”*.

For more detailed information on these preliminary agreements, see *“Material Contracts — Other Agreements”*.

The land for the project is zoned as urban land. According to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land to be acquired from LLC Masterkom is for the location of industrial objects. The permitted use for the land to be acquired from private individuals will be determined upon its registration with the Real Estate Cadastre. See *“Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction”*.

Stage of development:

Presently, we are in the design stage of the project.

We began development of this project in 2010, which is divided into two phases:

- The first phase comprises a total net sellable area of approximately 90.0 thousand square metres and is currently in the design stage.
- The second phase comprises a total net sellable area of approximately 75.4 thousand square metres and is currently in the design stage.

Key steps to completion:

Once the land plots are registered with Real Estate Cadastre, the ownership rights to the land are obtained and the design documentation for each phase is approved, we will need to apply for the construction permits that will allow us to commence construction. Subject to market conditions and approval of the design documentation by the relevant government authorities, construction of both phases is expected to be completed in 2014.

We estimate the construction budget for the development to be approximately USD 306.6 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 306.6 million of which the outstanding social infrastructure construction costs to be approximately USD 2.9 million.

Kremenchugskaya street-11 — St. Petersburg (Kremenchugskaya street, 11)

Description:

Kremenchugskaya street-11 is a middle-class residential complex, located in the Central district of St. Petersburg. The development envisages 26 buildings, constructed using poured concrete technology with brick elements and ventilated facades, comprising 15 residential buildings with up to nine floors, commercial premises, underground parking and social infrastructure.

The development is located in one of the most attractive areas of the city centre in close proximity to Nevsky Prospect, Vosstanya Square and numerous historical and cultural landmarks. The nearest metro stations, Vosstanya Square and Aleksandra Nevskogo Street, are within a 7-10-minute walking distance.

The development envisages a total site area of approximately 20.8 hectares with a total net sellable area of approximately 459,114 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Kremenchugskaya street-11 development at USD 125.8 million. We have a 78% share in the project.

Legal rights:

As of the date of this prospectus, our subsidiary SSMO LenSpetsSMU was in the process of obtaining lease rights to the land plots underlying the project. According to the investment agreement described below, the project land consists of three land plots with a total area of 20.8 hectares. We should note, however, that the obtaining lease rights to the land plots is a commercial understanding and remains subject to execution of a lease agreements with LLC Rosregionproject Development and registration of our lease rights in respect of such land plots. We expect, however, to enter into the lease agreements in relation to the abovementioned lease rights by the end of April 2011. See “*Risk Factors — Risks Relating to Our Business — We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report*”.

Investment agreement

On 29 October 2010, SSMO LenSpetsSMU and LLC Rosregionproject Development (“RRP”) entered into an investment agreement relating to the development of the Kremenchugskaya street-11 project. Pursuant to the agreement, we have a right to obtain lease rights to the project land to be divided into plots in accordance with the phases of construction. We will acquire ownership rights to the first land plot upon approval of the town planning and design documentation in respect of the development with each remaining rights acquired upon completion of the respective phase of the construction. The purchase price will be offset against a payment under either a cost sharing construction or an investment agreement to be entered with Cooperative established by RRP (see below).

Pursuant to the terms of the investment agreement, our obligations include but are not limited to:

- Procure, on behalf of RRP, an approval by the St. Petersburg Government of the town planning documentation;
- Enter into either a cost sharing contract with RRP or an investment agreement with a Cooperative established by RRP, according to which we are to transfer to RRP or the respective Cooperative 22% of the completed development;
- Pay 22% of the market value of the development to RRP or the Cooperative in the event of our delay to transfer the respective percentage of the development for more than 18 months;
- Secure an obligation to pay 22% of the development market value by means of obtaining a bank guaranty or a suretyship from Management Company Etalon;
- Construct the development and obtain requisite operational permits; and
- Comply with financial covenants provided for in the agreement.

RRP may unilaterally terminate the agreement in the event the town-planning documentation is not approved by the St. Petersburg Government by 29 April 2012 or is approved with a total area designated for flats lower than originally contemplated by the agreement. RRP may also declare termination should we breach the financial covenants.

The project land under the development is currently mortgaged to JSC TransCreditBank as a security for an USD 24.2 million credit facility. RRP undertook to release all the mortgages prior to acquisition of ownership rights to the land by us.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

The Kremenchugskaya street-11 project is situated within the preservation zone of St. Petersburg, and, accordingly, is subject to the development restrictions that apply within this zone. See “*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*”.

Stage of development:

Presently, we are in the design stage of the project.

We began development of this project in 2010, which is divided into three phases:

- The first phase comprises a total net sellable area of approximately 50.0 thousand square metres and is currently in the design stage.
- The second phase comprises a total net sellable area of approximately 200.0 thousand square metres and is currently in the design stage.
- The third phase comprises a total net sellable area of approximately 209.1 thousand square metres and is currently in the design stage.

Key steps to completion:

Once the town planning documentation is approved, the title to the land plots is acquired and the design documentation for each phase is approved, we will need to apply for the construction permits that will allow us to commence construction. Subject to market conditions and approval of the design documentation by the relevant government authorities, construction of the first phase is expected to be completed in 2014, the second phase in 2015 and the third phase in the fourth quarter of 2016.

We estimate the construction budget for the development to be approximately USD 789.4 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 789.4 million of which the outstanding social infrastructure construction costs to be approximately USD 5.9 million.

Moskovsky prospect -115 — St. Petersburg (Moskovsky prospect, 115)

Description:

Moskovsky prospect-115 is an upper economy class residential complex, located in the Moskovsky district of St. Petersburg. The development envisages a residential complex with commercial premises, underground parking and social infrastructure, constructed using poured concrete technology with brick elements and ventilated facades.

The project is situated on the territory of a former factory. The development is within close proximity to Moskovsky Gate metro station.

The development envisages a total site area of approximately 12.0 hectares with a total net sellable area of approximately 259,000 square metres (including parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Moskovsky prospect-115 development at USD 110.8 million. We have a 100% share in the project.

Legal rights:

The project land comprises ten land plots with a total area of 12.8 hectares. Pursuant to the investment agreement and the lease agreement described below, five land plots with a total area of 7.3 hectares are currently held by our subsidiary SSMO LenSpetsSMU in leasehold. The remaining land plots are expected to be transferred to us upon acquisition thereof by CJSC Vagonmash (“**Vagonmash**”).

Investment agreement

On 10 December 2010, SSMO LenSpetsSMU and Vagonmash entered into a investment agreement relating to the development of the Moskovsky prospect-115 project. Pursuant to the agreement, we obtain lease rights to the project land and will acquire ownership

rights thereto within two years upon preparation of design documentation.

Pursuant to the terms of the investment agreement, our obligations include but are not limited to:

- Prepare and obtain necessary approvals of the design and town planning documentation; and
- Purchase an ownership right to the land plots in accordance with sale and purchase agreements.

Certain land plots underneath the development and buildings located on the land plots are mortgaged to OJSC “BANK ROSSIYSKY CAPITAL”. Vagonmash undertook to release the mortgages prior to transfer of ownership rights to the land and buildings to us.

Certain buildings, located on the project land, are leased to Vagonmash. Pursuant to the investment agreement, Vagonmash retains the right to use the industrial buildings located on the project land as may be necessary in the ordinary course of business. Upon our acquisition of the ownership rights to the project land, all such industrial buildings are planned be demolished.

In addition, several land plots are situated within zones subject to certain town planning restrictions. Vagonmash undertook to provide change of the legal regime of such land plots thereby lifting the applicable zoning restrictions. In the event that Vagonmash fails to obtain such change, we have an option not to purchase the land plots and buildings in question.

Lease agreements

Pursuant to the lease agreement dated 19 November 2010, Vagonmash granted SSMO LenSpetsSMU a lease right through 1 September 2012 in respect of five land plots with a total area of 7.3 hectares for the purposes of construction of the Moskovsky prospect-115 development. Other land plots will be leased to us upon acquisition thereof by Vagonmash.

The land for the project is zoned as urban land, and, according to the cadastral passports of the relevant land plots and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

The Moskovsky prospect-115 project is situated within the preservation zone of St. Petersburg, and, accordingly, is subject to the development restrictions that apply within this zone. See “*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*”.

Stage of development:

Presently, we are in the design stage of the project.

We began development of this project in 2010, which is divided into two phases:

- The first phase comprises a total net sellable area of approximately 150.0 thousand square metres and is currently in the design stage.
- The second phase comprises a total net sellable area of approximately 109.0 thousand square metres and is currently in the design stage.

Key steps to completion:

Once the town-planning and design documentation for each phase is approved, we will need to apply for the construction permits that will allow us to commence construction. Subject to market conditions and approval of the design documentation by the relevant government

authorities, construction of the first phase is expected to be completed in 2015 and the second phase is expected to be completed in the fourth quarter of 2016.

We estimate the construction budget for the development to be approximately USD 431.3 million. As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 431.3 million of which the outstanding social infrastructure construction costs to be approximately USD 11.6 million.

Sea Cascade — St. Petersburg (Vasiliesky Island, Korablestroiteley street, 30)

Description:

Sea Cascade is an upper economy class residential complex, located in the historic Vasileostrovsky district of St. Petersburg. The project comprises five 10-18-storey residential buildings with an underground parking area, constructed using poured concrete technology with brick elements and ventilated facades. The buildings are constructed as stylised stairs, rising over the water of the Gulf of Finland. Most of the apartments feature a picturesque view of the Gulf of Finland. The complex features children playgrounds, recreational areas and consumer-oriented infrastructure, including a two-story shopping mall, cafes, offices, a kindergarten and entertainment centres. The north side of the development borders the Sea Facade development described below.

The proximity of the Vasleostrovsky district to the city centre makes it a prestigious location both for living and business. The district's transportation, however, is inadequate, which negatively impacts its further development. The development is within a 15-minute walking distance from Primorskaya metro station. It takes approximately 25 minutes by car to reach the city centre.

The development has a total net sellable area of approximately 120,946 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Sea Cascade development at USD 1.5 million. We have a 100% share in the project.

Legal rights:

In 1999, our subsidiary MFTC and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged in February 2007 due to full performance of both parties' obligations and expiration of the lease term. We obtained ownership rights to unsold flats and parking spaces in the development between June 2006 and March 2007.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

The project was commenced in 2000. We completed construction of the property and obtained an operational permit from the relevant government authorities in 2006.

We are in the process of selling commercial premises and parking spaces in the development, which was commenced in 2000. As of 31 December 2010, approximately 1,633.4 square metres of net sellable area remained unsold, including approximately 313 square metres of the non-residential built-in premises and 44 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining non-residential premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 0.2 million.

Sea Facade — St. Petersburg (Vasilievsky Island, between Morskaya embankment and Kapitanskaya street)

Description:

Sea Facade is an upper economy class residential complex, located the historic Vasileostrovsky district of St. Petersburg. The project consists of six 7-26 storey residential buildings with built-in commercial premises and an underground parking, constructed using poured concrete technology with brick elements and ventilated facades. The complex features children playgrounds, recreational areas and consumer-oriented infrastructure, including a 5,000-square metre fitness centre, cafes, offices, a kindergarten and entertainment centres. The south side of the development borders the Sea Cascade development described above.

The proximity of the Vasleostrovsky district to the city centre makes it a prestigious location both for living and business. The district's transportation, however, is inadequate, which negatively impacts its further development. The development is within a 15-minute walking distance from Primorskaya metro station. It takes approximately 25 minutes by car to reach the city centre.

The development has a total net sellable area of approximately 237,403 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Sea Facade development at USD 1.1 million. We have a 100% share in the project.

Legal rights:

In 2001, our subsidiary MFTC and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged in June 2008 due to full performance of both parties' obligations and expiration of the lease term. We obtained ownership rights to unsold flats and parking spaces in the development between June 2006 and March 2007.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

The project was commenced in 2000. We completed construction of the property and obtained an operational permit from the relevant government authorities in 2006.

We are in the process of selling non-residential premises and parking spaces in the development. As of 31 December 2010, approximately 523 square metres of net sellable area remained unsold, including approximately 193 square metres of the non-residential premises in the underground level and 11 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining non-residential premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 0.7 million.

Near Rostral Columns — St. Petersburg (Birzhevoy lane, 2,4,6)

Description:

Near Rostral Columns is a premium class residential complex, located in the historic Vasileostrovsky district of St. Petersburg. The project comprises several interlocked 4-storey townhouses, five 7-8-storey buildings and a 7-storey hotel with a restaurant, spa and fitness centres and retail premises.

The project is situated at Birzhevoy lane, close to the Petrogradsky district. It takes approximately 10 minutes by car to reach the city centre. The nearest metro station, Vasileostrovskaya, is within a 10-minute walking distance.

The development has a total net sellable area of approximately 69,152 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Near Rostral Columns development at USD 1.2 million. We have a 100% share in the project.

Legal rights:

In 2001, our subsidiary SSMO LenSpetsSMU, State Unitary Enterprise All-Russian Research Center State Optical Institute named after Vavilov S.I., State Unitary Enterprise Research and Development Institute of Laser Physics and the Russian Ministry of Property Relations entered into an investment agreement in respect of the development. The agreement was discharged in February 2005 due to full performance of both parties' obligations. We obtained ownership rights to unsold flats and parking spaces in the development between May 2007 and August 2007.

The land for the project is zoned as urban land, and according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

The Near Rostral Columns project is situated within the preservation zone of St. Petersburg, and, accordingly is subject to the development restrictions that apply within this zone. See "*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*".

Stage of development:

We commenced this project in 2003 and began construction in 2006. We completed construction of the property and obtained an operational permit from the relevant government authorities in 2007.

We are in the process of selling commercial premises and parking spaces in the development. As of 31 December 2010, approximately 651.8 square metres of net sellable area remained unsold, including approximately 81.2 square metres of the non-residential premises in the underground level and 19 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining non-residential premises, including parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 0.1 million.

Petrogradsky Etalon — St. Petersburg (Petrozavodskaya street, 13, lit. A)

Description:

Petrogradsky Etalon is a middle class residential complex located in the heart of St. Petersburg on the Petrograd side, one of the most beautiful areas of the city.

The complex comprises a single residential building with four 2-12-storey sections, two of which are commercial, with underground parking, constructed using poured concrete technology with brick elements and ventilated facades. The ground floors are occupied by consumer-oriented commercial premises. The size of the flats ranges from studios to six-room flats, with premium flats on higher floors benefiting from superior views of Krestovsky Island, Malaya Nevka river and Primorsky Park Pobedy. The development also features children playgrounds, sports facilities and recreation areas.

The development is easily accessed from Petrozavodskaya Street, which leads to one of the district's main transport routes — Maly Prospect of Petrogradskaya Storona. It is also possible to access the Property from Lodeinopolskaya Street, which leads to main roads — Levashovsky prospect and Bolshaya Zelenina street. The development is within a ten-minute driving distance from the Central district of St. Petersburg in non-peak traffic hours. The nearest metro station is Chkalovskaya, which is a ten-minute walk to the south from the development. There are also a number of bus and tram stops within a walking distance of the site.

The development occupies a total site area of approximately 1.7 hectares with a total net sellable area of approximately 33.2 thousand square metres, excluding parking spaces.

As of 31 December 2010, JLL assessed the Market Value of our interest in the Petrogradsky Etalon development at USD 4.05 million. We have a 100% share in the project.

Legal rights:

Our subsidiary MFTC obtained a freehold title to the land plot comprising the development site, which was registered with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region on 21 June 2005.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

We commenced the project and began construction in 2005. We completed construction of the property and obtained an operational permit from the relevant government authorities in 2008.

We are in the process of selling built-in commercial premises and parking spaces in the development. As of 31 December 2010, approximately 1,708.2 square metres of the underground built-in premises, including 49 parking spaces were unsold.

Key steps to completion:

In order to complete the project, we need to sell the remaining built-in commercial premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 2.1 million.

Oktyabrskaya Embankment — St. Petersburg (Prospect Bolshevikov, 79/4, lit.A)

Description:

Oktyabrskaya embankment is an economy class residential complex, located in the Nevsky district of St. Petersburg. The development envisages a modern 23-25-storey building, constructed using poured concrete technology with brick elements and ventilated facades. The ground floors are occupied by commercial premises.

The project is within a 7-minute walking distance from Elizarovskaya metro station. It takes approximately 15 minutes by car to reach the city centre.

The development has a total net sellable area of approximately 21,491 thousand square metres.

As of 31 December 2010, JLL assessed the Market Value of our interest in the Oktyabrskaya embankment development at USD 0.2 million. We have a 100% share in the project.

Legal rights:

In 2004, our subsidiary MFTC and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged in November 2007 due to full performance of both parties' obligations and expiration of the lease term. We obtained ownership rights to unsold flats and parking spaces in the development in 2007.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

We commenced this project in 2004 and completed construction of the property and obtained an operational permit from the relevant government authorities in 2007.

We are in the process of selling built-in commercial premises and parking spaces in the project. As of 31 December 2010, approximately 133.2 square metres of built-in commercial space remained unsold.

Key steps to completion:

In order to complete the project, we need to sell the remaining built-in commercial premises.

Rainbow — St. Petersburg (Zagrebsky boulevard, 9, lit.A, 9/1)

Description:

Rainbow is an economy class residential complex located in the Frunze district of St. Petersburg. The complex comprises seven buildings, constructed using poured concrete technology with brick elements and ventilated facades, including four 14-25 storey residential buildings with underground parking, a fitness centre with a swimming pool and underground parking, a kindergarten and school. The ground floors are occupied by consumer-oriented commercial premises. The complex also features guest parking, children playgrounds and recreational areas.

The project is in close proximity to Kupchino metro station and Dunaisky Prospect metro station, scheduled to be opened in 2012, as well as major roadways, including Budapest and Dmitrova streets, Zagrebsky boulevard and Malaya Kashtanova alley. The location of the development benefits from established social infrastructure, consisting of nearby medical facilities, banks, movie theatres and shopping malls.

The development has a total net sellable area of approximately 142,804 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Rainbow development at USD 18.8 million. We have a 100% share in the project.

Legal rights:

On 23 December 2005, our subsidiary SSMO LenSpetsSMU assumed all rights and obligations under a land lease agreement with

investment conditions, granted by the St. Petersburg Government to CJSC Russkaya Skazka in January 2005. The lease agreement expired on 6 October 2008 and was extended through December 2009 in the relation to the construction of the development and through December 2010 in relation to the construction of a fitness centre. We obtained ownership rights to unsold flats and parking spaces in the development between May 2009 and June 2010. We expect to discharge the agreement after payment of an extra RUB 200 million to St. Petersburg authorities. See “*Risk Factors — Risks Relating to Our Business — Delays in commencement or completion of construction or other defaults by us may affect our rights under land leases or investment contracts entered into with local and regional authorities or result in our incurring additional expenses.*”

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction.*”

Stage of development:

We commenced this project in 2005 and completed construction of the property and obtained an operational permit from the relevant government authorities between 2009 and 2010.

We are in the process of selling flats, storage spaces and commercial premises in the project. As of 31 December 2010, approximately 9,177 square metres of net sellable area remained unsold, including approximately 273 square metres of flats, approximately 835 square metres of commercial premises, 79 parking spaces, 30 storage spaces and a fitness centre.

Key steps to completion:

In order to complete the project, we need to sell the remaining flats, commercial premises, parking spaces, storage spaces and the fitness centre.

As of 31 December 2010, JLL estimated the total outstanding construction costs to be approximately USD 8.0 million. The outstanding payments for the areas sold were approximately USD 18.4 million as of 31 December 2010.

Polezhaevskiye Houses — St. Petersburg (Marshala Zhukova prospect, 48, bld. 1 A)

Description:

Polezhaevskiye Houses is an economy class residential complex, located in the Kirov district of St. Petersburg. The complex consists of two 24-storey residential buildings, located above the two-level underground/above-ground parking and built-in commercial premises. The complex is constructed using poured concrete technology with brick elements and ventilated facades. The upper floors of the flats feature panoramic views of the Gulf of Finland. The complex features children playgrounds as well as recreational and “green” areas.

The development is within a 7-10 minute drive from Prospect Veteranov metro station and in reasonable proximity to a railway station and KAD, the city’s ring road, which provide convenient access to the city centre. It takes approximately 40 minutes by car to reach the city centre. The area also benefits from its proximity to several parks, such as Polezhaevsky, Alexandrino, Sosnovaya Polyana, and Yuzno-Primorsky parks, Dudergofka river and remoteness from industrial enterprises.

The development occupies a total site area of approximately 0.8 hectares with a total net sellable area of approximately 21,800 square metres (excluding parking).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Polezhaevskiye Houses development at USD 4.4 million. We have a 100% share in the project.

Legal rights:

On 30 September 2004, our subsidiary SSMO LenSpetsSMU and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged on 18 November 2009 due to full performance of both parties' obligations. We obtained ownership rights to unsold flats and parking spaces in the development between October and November 2009.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

We commenced this project in 2005 and completed construction of the property and obtained an operational permit from the relevant government authorities in 2008.

We are in the process of selling built-in commercial premises and parking spaces in the project. As of 31 December 2010, approximately 5,218 square metres remained unsold, including approximately 801.6 square metres of built-in commercial space and 145 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining built-in commercial premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 2.2 million.

Golden Bay — St. Petersburg (Primorsky prospect, 137/1, lit.A, 137/2, lit.A, Yakhmennaya street, 1/1, 3/1, lit.A, 3/ 2, lit.A)

Description:

Golden Bay is an economy class residential complex located in the Primorsky district of St. Petersburg. The complex consists of seven 25-storey residential towers with 15-18-storey sections, constructed from brick and poured concrete with ventilated facades. The ground floors are occupied by consumer-oriented commercial premises. The complex also features a fitness centre, children playgrounds as well as recreational and "green" areas.

The development is situated along the picturesque bank of the Gulf of Finland. The location of the development benefits from established social infrastructure, consisting of nearby medical facilities, banks, movie theatres and shopping malls.

The development is within a 25-30-minute walking from Staraya Derevnaya metro station and within close proximity to major roadways, such as Primorsky prospect and Savushkina street. It takes approximately 15-20 minutes by car to reach the city centre in non-peak traffic hours. There are also a number of bus and tram stops within a walking distance of the site, with bus routes to the central part of the city.

The development occupies a total site area of approximately 7.5 hectares with a total net sellable area of approximately 215,856 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Golden Bay development at USD 6.6 million. We have a 100% share in the project.

Legal rights:

On 1 October 2003, our subsidiary SSMO LenSpetsSMU and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged on 1 June 2009 due to full performance of both parties' obligations. We obtained ownership rights to unsold flats and parking spaces in the development between November 2006 and August 2009.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

We commenced this project in 2003 and completed construction of the property and obtained an operational permit from the relevant government authorities in 2008.

We are in the process of selling commercial premises and parking spaces in the project. As of 31 December 2010, approximately 2,934.4 square metres of net sellable area remained unsold, including approximately 24.4 square metres of commercial premises and 97 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining commercial premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 3.9 million.

Grazhdanka City — St. Petersburg (prospect Nauki 17/6, lit.A)

Description:

Grazhdanka City is an economy class residential complex, located in the Kalininsky district of St. Petersburg in the Grazhdanka microdistrict. The project comprises four interconnected 17-23-storey buildings. The ground floors of the complex are occupied by consumer-oriented commercial premises. The size of flats ranges from studios to six-room flats. The development benefits from the proximity of the city infrastructure, including shops, schools, kindergartens, fitness and spa centres, banks and movie theatres.

The project is situated in Grazhdanka micro-district, which is one of the most popular residential areas among potential buyers according to the Valuation Report. The nearest metro station, Akademicheskaya, is within a 3-minute walking distance. It takes approximately 30 minutes by car to reach the city centre.

The development has a total net sellable area of approximately 46,266 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Grazhdanka City development at USD 1.3 million. We have a 100% share in the project.

Legal rights:

In 2004, our subsidiary SSMO LenSpetsSMU and the St. Petersburg Government entered into a land lease agreement with investment

conditions in respect of the development. The agreement was discharged on July 2008 due to full performance of both parties' obligations and expiration of the lease term. We obtained ownership rights to unsold flats and parking spaces in the development in October 2008.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See "*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*".

Stage of development:

We commenced this project in 2004 and completed construction of the property and obtained an operational permit from the relevant government authorities in 2007.

We are in the process of selling commercial premises and parking spaces in the project. As of 31 December 2010, approximately 1,960.7 square metres of net sellable area remained unsold, including approximately 130.7 square metres of built-in commercial premises and 61 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining commercial premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 0.2 million.

Grazhdanka City-2 — St. Petersburg (prospect Nauki, 17/2, lit. A)

Description:

Grazhdanka City-2 is an economy class residential complex, located in the Kalininsky district of St. Petersburg in the Grazhdanka microdistrict. The project comprises a single 17-23 storey residential complex consisting of five interconnected sections. The ground floors of the complex are occupied by consumer-oriented commercial premises. The project features underground and ground level parking area, children playground and recreational area. The development also benefits from the proximity of the city infrastructure objects, including shops, schools, kindergartens, fitness and spa centres, banks and movie theatres.

The project is situated in Grazhdanka micro-district, which is one of the most popular residential areas among potential buyers according to the Valuation Report. It takes approximately 30 minutes by car to reach the city centre. The nearest metro station, Akademicheskaya, is within a 3-minute walking distance.

The development has a total net sellable area of approximately 40,739 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Grazhdanka City-2 development at USD 0.8 million. We have a 100% share in the project.

Legal rights:

On 20 December 2004, our subsidiary SSMO LenSpetsSMU and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged on 18 June 2008 due to full performance of both parties' obligations. We obtained ownership rights to unsold flats and parking spaces in the development on between April and September 2008.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction*”.

Stage of development:

We commenced this project in 2005 and completed construction of the property and obtained an operational permit from the relevant government authorities in 2007 with exception of the parking area, which was commissioned in the first quarter of 2010.

We are in the process of selling residential space and parking spaces in the project.

As of 31 December 2010, approximately 783.2 square metres of net sellable area remained unsold, including approximately 93.2 square metres of flats and 23 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining flats and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 0.2 million.

New Constellation — St. Petersburg (Prosvescheniya prospect, 99, lit. A, B, V, D)

Description:

New Constellation is an economy class residential complex located in the Kalininsky district, the most populous district of St. Petersburg. The complex consists of four 20-25-storey residential buildings with underground parking, constructed using poured concrete technology with brick elements and ventilated facades. The ground floors are occupied by consumer-oriented commercial premises.

The project is situated in Grazhdanka micro-district, which is one of the most popular residential areas among potential buyers, according to the Valuation Report. The project is in close proximity to Grazhdansky Prospect metro station and major roadways, including Grazhdansky prospect and Rustavely street. It takes approximately 30 minutes by car to reach the city centre, assuming that the traffic is not congested. The development is surrounded mostly by residential buildings and has well-developed social infrastructure and transport network due to proximity of Murino railway station and KAD, the city’s ring road.

The development has a total net sellable area of approximately 118,065 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the New Constellation development at USD 10.5 million. We have a 100% share in the project.

Legal rights:

On 23 June 2005, our subsidiary SSMO LenSpetsSMU and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged on 16 April 2010 due to full performance of both parties’ obligations. We obtained ownership rights to unsold flats and parking spaces in the development between December 2008 and February 2010.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors —*

Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction”.

Stage of development:

We commenced this project in 2005 and completed construction of the property and obtained operational permits from the relevant government authorities in 2008. We are in the process of selling flats, commercial premises and parking spaces in the project.

As of 31 December 2010, approximately 8,493.5 square metres of net sellable area remained unsold, including approximately 139.6 square metres of flats, 613.9 square metres of commercial premises and 258 parking spaces.

Key steps to completion:

In order to complete the project, we need to sell the remaining flats, commercial premises and parking spaces.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 5.2 million.

Invigorating Stream — St. Petersburg (Ushinskogo street, 2/1, lit. A)

Description:

Invigorating Stream is an economy class residential complex, located in the Kalininsky district, the most populous district in St. Petersburg. The complex consists of a single 16-storey residential building with underground parking, constructed using poured concrete with brick elements and ventilated facades. The complex features children playgrounds, guest parking and recreational areas.

The development is within a 15-20 minute walking distance to Grazhdansky Prospect metro station and close proximity to major roadways, including Lunacharskogo prospect. Situated in one of the most ecologically clean areas of St. Petersburg, known as Grazhdanka, the development is adjacent to Marinsky stream and surrounded by parks. The development is surrounded mostly by residential buildings. The area has well-developed social and commercial infrastructure and a reliable transport network, including the city’s ring road, which facilitates travel to the downtown area and nearby neighbourhoods. It takes approximately 40 minutes by car to reach the city centre. The project is in close proximity to several popular vacation destinations, such as the Kavgolovskie lakes, several ski resorts and recreational parks.

The development has a total net sellable area of approximately 54,198 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Invigorating Stream development at USD 4.0 million. We have a 100% share in the project.

Legal rights:

On 1 July 2005, our subsidiary SSMO LenSpetsSMU and the St. Petersburg Government entered into a land lease agreement with investment conditions in respect of the development. The agreement was discharged on 16 July 2010 due to full performance of both parties’ obligations. We obtained ownership rights to unsold flats and parking spaces in the development between May and July 2010.

The land for the project is zoned as urban land, and, according to the cadastral passport of the relevant land plot and the St. Petersburg land use and development regulations, the permitted use of the land is for the location of multi-flat residential buildings. See “*Risk Factors — Risks Relating to Our Business — Zoning restrictions and local opposition can delay or preclude construction”.*

<i>Stage of development:</i>	<p>We commenced this project in 2005 and completed construction of the property and obtained an operational permit from the relevant government authorities in 2008. We are in the process of selling residential space and parking spaces in the project.</p> <p>As of 31 December 2010, approximately 403.1 square metres of net sellable area remained unsold, including approximately 133.1 square metres of flats and nine parking spaces.</p>
<i>Key steps to completion:</i>	<p>In order to complete the project, we need to sell the remaining flats and parking spaces.</p> <p>As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 4.3 million.</p>

Commercial Real Estate Projects

Smolenka River Business Centre — St. Petersburg (Smolenka River embankment, 33)

<i>Description:</i>	<p>Smolenka River Business Centre is a Class B business centre, located in the central part of the Vasileostrovsky district of St. Petersburg. The centre comprises a single 7-storey building, which includes three zones: underground car park, retail premises on the first and second floors, and office premises on the third to seventh floors. Each zone has a separate entrance. Office premises are offered in fitted-out condition. The office building is fully equipped with all necessary communications engineering. The retail area has three separate entrances and its own lift.</p> <p>The development is within a 5-minute drive from both Vasileostrovskaya and Primorskaya metro stations and close proximity to major roadways, including the Western High-Speed Diameter road. It takes approximately 15 minutes by car to reach the city centre in non-peak traffic hours.</p> <p>The project occupies a total site area of approximately 0.4 hectares with a total of net sellable/leasable area of approximately 9,014.9 square metres (excluding parking spaces), of which approximately 46% is leased to third parties.</p> <p>As of 31 December 2010, JLL assessed the Market Value of our interest in the Smolenka River Business Centre development at USD 10.6 million and the Estimated Market Rental at USD 2.3 million <i>per annum</i> (excluding VAT). We have a 100% share in the project.</p>
<i>Legal rights:</i>	<p>On 1 February 2006, our subsidiary MFTC and the St. Petersburg Government entered into a land lease agreement with investment conditions with respect to the development. The agreement was discharged on 11 August 2009 due to full performance of both parties' obligations and expiration of the lease term. We obtained ownership rights to the commercial premises in the completed building in 2009.</p>
<i>Stage of development:</i>	<p>The project was commenced in February 2006 and began construction in January 2008. We completed construction of the property and obtained an operational permit from the relevant government authorities in January 2009.</p> <p>We are in the process of selling/leasing commercial and office space and selling parking spaces in the development. As of 31 December 2010, approximately 6,811.2 square metres of net sellable/leasable area remained unsold/unleased, including 61 parking spaces.</p>
<i>Key steps to completion:</i>	<p>In order to complete the project, we need to sell/lease the remaining commercial and office space and sell the remaining parking spaces.</p>

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 0.3 million.

Stock Exchange Business Centre — St. Petersburg (Vasilevsky Island, 26 line, 15)

Description:

Stock Exchange Business Centre is a commercial development, located in the Vasileostovsky district of St. Petersburg. The centre comprises a single 16-storey building, constructed using poured concrete technology with ventilated facades and panoramic glazing. The centre houses the St. Petersburg Stock Exchange, a bank and prime office spaces. The upper floors of the development offer panoramic views of the historic centre of St. Petersburg and the Gulf of Finland.

The business centre is one of the few modern buildings dominating the Vasileostrovsky district. The centre is within a 5-10 minute car distance from Vasileostrovskaya metro station and within close proximity to major roadways, including Bolshoy prospect. It takes approximately 5-10 minutes by car to reach St. Petersburg's Central District in non-peak traffic hours.

The project occupies a total site area of approximately 0.4 hectares with a total of net sellable/leasable area of approximately 21,263.0 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the Stock Exchange Business Centre development at USD 16.4 million. We have a 100% share in the project.

Legal rights:

In 2006, our subsidiary MFTC and CJSC Birzha Sankt-Peterburg, which holds ownership rights to one land plot and a leasehold to two land plots, entered into an investment agreement with respect to the development. On 1 June 2007, our subsidiary SSMO LenSpetsSMU assumed all rights and obligations of MFTC under the agreement. The agreement was discharged in October 2009 due to full performance of both parties' obligations. We obtained ownership rights to the commercial premises in the development in 2010.

Stock Exchange Business Centre is situated within the preservation zone of St. Petersburg, and accordingly, is subject to the development restrictions that apply within this zone. See "*Regulation of Real Estate in Russia — Restrictions in St. Petersburg Preservation Zone*".

Stage of development:

We commenced this project in 2006 and began construction in 2007. We completed construction of the property and obtained an operational permit from the relevant government authorities in 2010.

We are in the process of selling/leasing unoccupied spaces in the development. As of 31 December 2010, approximately 3,997.9 square metres of net sellable/leasable area remained unsold/unleased.

Key steps to completion:

In order to complete the project, we need to sell/lease the remaining unoccupied space.

As of 31 December 2010, the outstanding payments for the areas sold were approximately USD 6.2 million.

AURA Trading and Exhibition Centre — St. Petersburg (Lakhtinsky prospect, 85/2, lit.A)

Description:

AURA Trading and Exhibition Centre is a commercial development, located in Lakhta village of the Primorsky district of St. Petersburg. The centre is comprised of two three-storey buildings connected by an atrium and includes various retail and exhibition premises, a supermarket and a restaurant with 100-person capacity. The structure

of the building is made using poured concrete technology. The building facades are formed by a contrasting combination of large shaped glazed components with the application of coloured, transparent and textured glass and unusual walls perforated by window openings.

The development is situated next to the Garden City retail complex and directly connected to Primorskoye highway, which conveniently links the development to the city and the Kurortny and Vyborgsky districts of the Leningrad region. It takes approximately 25-30 minutes by car to reach the centre of St. Petersburg in non-peak traffic hours and approximately 5-10 minutes to reach the intersection of Primorskoe highway and St. Petersburg's Circle Road in the Gorskaya settlement. The nearest railway station, Lakhta, is a 5-minute walk from the centre.

The project occupies a total site area of approximately 1.3 hectares with a total of net leasable area of approximately 9,166.4 square metres (excluding parking spaces).

As of 31 December 2010, JLL assessed the Market Value of our interest in the development at USD 24.8 million and the Estimated Market Rental at USD 3.5 million per annum (excluding VAT). We have a 100% share in the project.

Legal rights:

On 30 November 2004, our subsidiary LenSpetsSMU-Comfort and the St. Petersburg Government entered into a land lease agreement with investment conditions with respect to the development. On 16 April 2009, the rights and obligations under the agreement were assumed by our subsidiary SSMO LenSpetsSMU. The agreement was discharged on 23 July 2009 due to full performance of both parties' obligations. We obtained ownership rights to the completed building in April 2011. As of the date of this prospectus we were in the process of reregistration of the lease agreement to the land underlying the building.

Stage of development:

The project was commenced in November 2004 and began construction in December 2007. We completed construction of the property and obtained an operational permit from the relevant government authorities in November 2008.

We are in the process of selling/leasing unoccupied spaces in the development. As of 31 December 2010, approximately 9,166.42 square metres of net sellable/leasable area remained unsold/unleased.

Key steps to completion:

In order to complete the project, we need to obtain ownership rights to the constructed building and sell/lease the remaining unoccupied space.

Land Bank

We aim to maintain sufficient land bank for sustainable development over the short to medium term, which we believe enables us to minimise the time period between acquisition and development of the acquired land, and, thus, assures our capital will be more efficiently deployed and enhances our returns. In order to avoid our capital being tied down to passive land banks and minimise our overall capital costs, our project portfolio had no projects held for future development as of 31 December 2010.

As of 31 December 2010, our real estate development land bank, which is the land projects under development, consisted of approximately 193.1 hectares of land. We anticipate that, based on our current development plans, our development land bank will allow us to develop approximately 3.4 million square metres of net sellable area of mainly residential real estate.

The Company is currently considering several additional projects in the Moscow Metropolitan Area and St. Petersburg Metropolitan Area, which are at various stages of evaluation, internal approval and/or negotiation.

Valuation of our Properties

We retained JLL to value certain of our real estate properties and development projects, which we generally refer to in this description as “properties”. The valuations and a discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report. The properties in the Valuation Report are valued as of 31 December 2010.

JLL has assessed the Market Value of each property using the methodology set out in the Valuation Report and summarised in “Valuation Methodology” below, in each case in accordance with the current Practice Statements and United Kingdom Practice Statements contained within the Red Book, which is defined as: “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

According to JLL, as of 31 December 2010, the aggregate Market Value of our beneficial share of the properties was USD 1.4 billion (RUB 42.7 billion). This represents the aggregate of the current values attributable to our stake in each of our properties and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. In addition, each valuation does not consider any effect of multiple properties being developed concurrently or released to the market together. The values ascribed to each property are set out in the Valuation Report.

Valuation Methodology

All properties in the course of development were valued using the residual site appraisal approach, whereas all properties held as investment were valued using the income approach. Each method has its own limitations, especially in Russia, and we urge you to read the Valuation Report for a full discussion of these limitations. Below we have generally described the basic premises of each of these approaches.

The residual site appraisal approach has been applied by JLL using the discounted cash flow methodology, which involves the calculation of the present value of all future costs and income to be incurred and generated by the development of the property. This cash flow is discounted at an appropriate rate and this, in turn, generates a present value of the cash flow, which is the sum available for the purchase of the site at the date of valuation.

Under the income approach, JLL have capitalised the income received for the terms of the existing lease agreements. These leases are assumed to be renewed at market rents, which have then been capitalised into perpetuity.

Certain Assumptions and Methodologies

The valuations are based on various assumptions and methodologies. We urge you to read the Valuation Report for a full discussion of these assumptions and methodologies.

In general, JLL has assumed a number of matters relating to the nature of the properties and the development process. An assumption is stated in the Glossary to the Red Book to be a “supposition taken to be true”. Assumptions are facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, need not to be verified by a valuer as part of the valuation process. In undertaking the valuation of our properties, assumptions made by JLL included, but were not limited to:

- Where the interest in the properties is leasehold from local authorities, there are no grounds to rescind land leases or not to grant their renewal and there are no unreasonable or unusual clauses, which would affect value and no unusual restrictions governing the assignment or disposal of the interest;
- Each leasehold interest is held by way of a SPV and the shares in the respective SPVs themselves are capable of assignment;
- Where properties are held for the purposes of investment, each tenant is capable of meeting its leasehold obligations and there are no arrears of rent or undisclosed breaches of covenant;
- Outstanding payments due for the areas sold will be paid by the buyer in accordance with schedules stipulated by individual sales agreements;

- Each property has a good and marketable title and all documentation is satisfactory drawn and there are no encumbrances, restrictions, easements or other outgoings of an onerous nature, which would have a material effect on the value of the interest under consideration, nor material litigation pending;
- The properties will be developed in accordance with the approved planning and project documentation and no extraordinary expenses or delays will be incurred during the construction period due to these matters;
- All necessary planning consents will be obtained within a reasonable and standard timescale, and there will be no extraordinary issues, which may delay the receipt of the necessary consent and which may have an impact on the value or marketability of the property;
- Unless provided with information to the contrary, we have assumed that these properties are not, nor likely to be, affected by land contamination and that there are no ground conditions, which would affect the present or future use of the properties;
- No deleterious materials or techniques have been used in the construction of any of the subject buildings, save where we specifically advised JLL;
- The premises (and any works thereto) comply with all relevant statutory and EC regulations, including enactments relating to fire regulations, access and use by disabled persons and control and remedial measures for asbestos in the workplace; and
- The proposed projects will be developed in phases in order to bring a manageable amount of supply to the market in stages.

In addition to aforementioned assumptions, JLL has made two special assumptions. In this respect, the Red Book defines such assumption that either (i) requires the valuation to be based on facts that differ materially from those that exist at the date of valuation, or (ii) is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make on the date of valuation, having regard to prevailing market circumstances.

In undertaking the valuation of our properties, JLL made the following special assumptions:

- In the case of our four portfolio projects, namely (i) Obukhovskiy oboronny prospect-110, (ii) Uralskaya street-2, (iii) Kremenchugskaya street-11, and (iv) Moskovskiy prospect-115, where we had not entered into final sale and purchase agreements or obtained rights necessary to complete the development of such projects as of 31 December 2010, JLL valued such properties on the special assumption that such rights necessary to complete the development of the projects will be obtained in the near future.
- Additionally, JLL made a further special assumption that, as of 31 December 2010, we have executed all the payments related to the purchase for these rights.

See also *“Risk Factors — Risks Relating to Our Business — We may be unable to enter into final sale and purchase agreements or obtain rights necessary to complete the development of projects included in the Valuation Report”*.

JLL has also used various valuation methodologies intended to remove certain variables from the valuations. These valuation methodologies include, for example:

- Where the projects are in early stage of development and full permission from the local authorities has not been obtained, JLL considered our business plan to develop each such project. Each valuation, nevertheless, reflects JLL’s opinion of the highest and best use for the project in question. The “Highest and Best Use” is defined in Paragraph 3.4 of the International Valuation Standards as “the most probable use of a property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued”. Therefore, JLL’s valuations do not necessarily reflect our intended development programme;
- The stated market values of the properties are exclusive of any VAT;
- No allowances are made for any expenses of realisation or for taxation, which might arise in the event of a disposal of any property; and
- No allowances are made for the effect of the simultaneous marketing of all/or a portion of the properties.

In addition, the valuations are based on the information, which we have supplied to JLL. JLL has relied on such information as being correct and complete, without independent verification.

In the Valuation Report, JLL confirmed that there has been no material change in the Market Value of any of the properties between 31 December 2010 and 15 April 2011, which is the date of the Valuation Report. JLL further

confirmed that it was not aware of anything that would require it to revise its assumptions or valuations in the Valuation Report.

See also “*Risk Factors — Risks Relating to Our Business — Real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because determining such values is an inherently subjective process. In addition, an appraisal may not be directly comparable to those given in respect of similar portfolios held by other real estate development businesses in the Russian market as a result of differing assumptions and methodologies*”.

INDUSTRIAL CONSTRUCTION

We are a leader in industrial construction in the North-West region of Russia based on our extensive experience and a strong track record of successfully executing large and complex industrial projects for both domestic and international clients. In 2005, rapid economic growth of the North-West region and substantial demand for construction of industrial facilities led to establishment of our wholly-owned subsidiary, EtalonPromstroy, which undertakes industrial construction projects in the capacity of a general contractor or a sub-contractor. Since 2005, we have completed industrial projects with a total contract value of approximately RUB 2.9 billion. Our comprehensive service range includes building construction, civil engineering, road construction and mechanical and electrical engineering. Our projects often have accelerated completion schedules, require flexibility in adapting to design changes, demand the highest quality control standards and are frequently conducted at challenging locations. We believe we have developed a solid reputation within the industry for efficiently executing large-scale industrial projects on time, on budget and in accordance with specifications and designs.

As of 31 December 2010, we had contributed to 15 milestone industrial projects in the North-West region of Russia, including the following projects summarised below:

The North-West Heat and Power Station — Olgino village, St. Petersburg

Description: This project involved construction of the foundation for a cooling tower and construction of the pile foundation of the main building.

Work execution period: January 2001 — December 2001

Toyota Motors Plant — Shushary village, St. Petersburg

Description: This project involved driving works of the 80,000 metres of sectional piles with a welded joint on the construction site of the car assembly plant.

Work execution period: May 2006 — December 2006

Admiralty Shipyards — St. Petersburg

Description: This project took place at the production facility preparing ship sections for slipway and involved construction of the 1,824 square metres building and installation of state-of-the-art utility systems and technical equipment enabling the preparation and painting of separate ship section elements to international standards. All premises were equipped with custom-built automated ventilation and heating system, compressor equipment for compressed air supply to the work area and an automatic lifting gate.

Work execution period: September 2006 — March 2008

South-West Heat and Power Station — St. Petersburg

Description: This project involved construction of a 2.1 kilometres fence from reinforced concrete panels of P6G-1 type on the pile foundation including the installation of pile-caps. It also involved construction of a checkpoint and installation of automated sliding and hinged gates.

Work execution period: October 2006 — March 2007

Pulkovo Customs — St. Petersburg

Description: This was a turn-key project for an office building, which involved design, geological survey, construction of a pile foundation and associated administrative building, installation of external and internal utility systems, mechanical services, finishing and decoration.

Work execution period: December 2005 — December 2007

General Motors — Shushary industrial area, St. Petersburg.

Description: This project involved construction of 2.3 kilometres of temporary roads including those with concrete slab paving, test piling and pile driving for a car assembly plant.

Work execution period: May 2007 — November 2008

Nissan Plant — St. Petersburg, Kamenka industrial area

Description: This project involved construction of the 32,000 square metre vehicle test track and the 60,000 square metre car storage area, which included design and construction of storm water drainage, drainage system and pipe barrels, treatment facilities, exterior lighting system and lighting poles, asphalt work, landscaping and roads.

Work execution period: October 2008 — June 2009

Ford Motor Company Plant — Vsevolozhsk town, St. Petersburg

Description: This project involved renovation of production facilities as part of a production facility expansion project for the production of a new car model. The construction of the new premises and renovation of the existing ones was done without interruption to production. This project also involved the construction of the 25,500 square metres car storage area with an asphalt concrete covering, petrol station, and the 15,500 square metres container area made of PAG-type slabs and territory fencing.

Work execution period: January 2008 — July 2009

Almazov Medical and Rehabilitation Complex — St. Petersburg

Description: This project involves renovation of the existing three-storey brick building, which includes dismantling roofs and building up two additional floors. Columns and floors from a metal frame are used as load-bearing structures. The facade is made according to a frame ventilated technology with a ceramic granite veneer. The project also includes renovation of the operating premises.

Work execution period: June 2009 — November 2010

Oktyabrskaya Railway — Metallostroy village, St. Petersburg

Description: This project involves construction of a production complex on the territory of JSC Russian Railways in close proximity to a functioning railroad. The structure of the building is a poured concrete two-story building with a basement and pile foundation. The building facade is made of sandwich panels with glazing.

Work execution period: First stage: April 2008 — July 2009
Second stage: August 2009 — March 2010

Receivers and Satellite Antennas Production Plant — Gusev, Kaliningrad region

Description: This was a turn-key project, which involved design and construction of an industrial building using standard frame technology with the application of light steel structures, installation of external and internal utility systems and installation of equipment.

Work execution period: March 2008 — August 2009

We believe that our ability and expertise to provide quality construction services to well-known international and domestic companies has, in recent years, increased our brand awareness and strengthened our ability to successfully tender new projects and secure additional mandates from our existing customers. In addition, we believe diversification into industrial construction allows us to maintain a skilled work force during a market downturn. We plan to continue developing our industrial construction operations and maintain our share in total business.

As of 31 December 2010, we were engaged in 12 projects, including the following key industrial construction projects summarised below:

Power Substation No. 167 “Volkovskaya” — St. Petersburg

Description: This project was a turn-key project for a power substation, which involved design, survey and construction works and installation of equipment.

Work execution period: October 2007 — October 2011

Administrative Building — St. Petersburg

Description: This project involves renovation of a historic building with the addition of an attic floor.

Work execution period: December 2009 — September 2011

State Educational Institution High School No. 52 — St. Petersburg

Description: This project involves renovation of the 5,691 square metres of a high school building, originally constructed in 1977.

Work execution period: August 2010 — July 2011

CONSTRUCTION MATERIALS PRODUCTION

Our construction materials business comprises the production and sale of bricks, ready-mix concrete, reinforced concrete products and aerated concrete, primarily to satisfy demand within the Group. We believe our construction materials business allows us to hedge against possible shortages and bottlenecks and realise synergistic cost savings throughout the development and construction cycle. To ensure full utilisation of our production capacity and increase margins, free capacity not utilised by our own development projects is sold to third parties.

Bricks

We manufacture a wide variety of high quality ceramic bricks of different size, grades and hues.

In 2010, we supplied 100% of the brick requirement of our Group companies, which represented 20% of our 35 million metric bricks annual production capacity. In 2010, our production volume of bricks amounted to approximately 20 million metric bricks, of which approximately 13 million bricks were sold to third parties.

Concrete and Reinforced Concrete Structures

We also manufacture ready-mix concrete, reinforced concrete structures and aerated concrete.

Ready-mix concrete

Ready-mix concrete is a versatile, low-cost manufactured material that the construction industry uses in substantially all of its projects. It is a stone-like compound that results from combining fine and coarse aggregates, such as sand, gravel and crushed stone, with water, various admixtures and cement. Ready-mix concrete can be manufactured in thousands of variations which in each instance may reflect a specific design use. Ready-mix

concrete begins to harden when mixed and generally becomes difficult to place after 90 minutes from mixing. This characteristic limits the market for a permanently installed ready-mix plant to an area within a 25-mile radius of its location.

In 2010, we supplied 100% of the ready-mix concrete requirements of our group companies. As of 31 December 2010, our annual production capacity of ready-mix concrete was approximately 204 thousand cubic metres.

Reinforced concrete structures and aerated concrete

We produce a variety of reinforced concrete structures, including reinforced concrete lift shafts, flights of stairs, lintels, ventilation blocks and fencing panels.

We also produce aerated concrete blocks, which are a lightweight artificial building material produced by solidifying a porous mix and are used in residential and commercial construction for wall and load-carrying structures and as insulation material. The primary ingredients in the production of the aerated concrete that we offer are refined quartz sand, cement, lime, gypsum and aluminium powder, all of which are purchased from third parties. Aerated concrete is produced by applying heat to ingredient materials in autoclaves. Aerated concrete products (both small wall blocks and reinforced items) can be used for load-carrying as well as non-load carrying structures of exterior and interior walls, with aerated concrete serving both as a structural and insulating material. Aerated concrete is environmentally friendly, easy to produce and competitively priced in comparison to other construction materials. In light of these properties, aerated concrete is proving increasingly popular as a construction material used in high-rise residential construction as well as for commercial and industrial projects.

In 2010, we supplied 100% of the reinforced concrete structures and aerated concrete requirements of our Group companies. As of 31 December 2010, our annual production capacity of reinforced concrete and aerated concrete was approximately 42 thousand cubic metres.

CONSTRUCTION EQUIPMENT AND MACHINERY

We engage in leasing, engineering and technical support services for a wide range of construction equipment and machinery to our Group companies and third parties. As of 31 December 2010, our construction equipment included approximately 50 thousand square metres of advanced formwork systems from such leading international and domestic manufacturers as Meva, Doka and Oprus, and approximately 15 diesel generators, 53 diesel electric generators and nine diesel electric stations.

In response to a shortage of tower cranes available to construction companies, in 2009, we increased our share from 30% to 100% in a company, which owns enough tower cranes to permit our operations to be self-sufficient. As of 31 December 2010, our fleet of the latest generation tower cranes consisted of 38 Liebherr tower cranes (of which 37 were manufactured in 2006-2008) with lifting capacity of 5-12 tons, maximum height of 200-300 metres and maximum jib length of 45-65 metres. We have entered into finance leases with LLC SEB Leasing, LLC Hansa Leasing, LLC BSGV Leasing and LLC Credit Europe Leasing for the lease of these tower cranes, which we believe has allowed us to minimise the initial cash outlay for such equipment.

SUPPLIERS

We contract with major suppliers for raw materials, construction materials and equipment used in the construction of our projects, including cement, crushed rock, gravel, clay, sand, and metal.

As of 31 December 2010, our five largest suppliers of raw materials are OJSC Granit Kuznechnoe (crushed rock), OJSC Lentekhstrom (crushed rock), LLC Nerud Prom (sand) and LLC LenStroyServis (sand).

Our five largest suppliers of construction materials and equipment are LLC PKF SANK (reinforcement bars, metal roll), LLC OTIS Lift (elevator equipment), LLC ThyssenKrupp Materials (reinforcement bars, metal roll), LLC Kirovsky DSK (SKTs rock, curb stone), LLC Polar Invest (curb stone and concrete wall stone) and LLC TK Lenstroymaterialy (broken stone, silicate baffles).

We have rigorous specifications when selecting our suppliers, which are based not only on the quality and price of the products, but also on the reputation of the suppliers. We also maintain strict quality controls to ensure that materials conform to specifications prior to their installation.

We work closely with our suppliers, enabling them to schedule their production in order to meet our demand or notify us in advance in the event they anticipate delays. We have good relationships with our suppliers and have experienced no significant construction delays due to shortages of materials in recent years.

LICENSES AND CERTIFICATES

Since January 2010, activities relating to the construction and development of buildings in Russia are no longer subject to licensing. Instead, every person (entity) that intends to be engaged in construction, project design preparation or engineering survey activity must become a member of a non-profit self-regulated organisation and obtain a certificate of approval from such organisation. The certificate of approval is issued to a particular person (entity) for a particular type of activity, but it has no expiration date and serves as a permission to carry out the permitted activity at any site in any part of the Russian Federation. The following table sets forth certain information regarding the certificates of approval permitting us to conduct construction, project design preparation and engineering survey works as of 31 December 2010:

<u>Certificate Holder</u>	<u>Certificate Issuer</u>	<u>Certificate Number</u>	<u>Activity Type</u>	<u>Date Certificate Obtained</u>
EtalonProekt	Non-profit Partnership Association of Designers	0039-2009-7814301602-P-31	Particular activity types regarding preparation of a project documentation	3 February 2010
SSMO LenSpetsSMU	Non-profit Partnership Association of Designers	0152.01-2010-7802084569-P-031	Particular activity types regarding preparation of a project documentation	17 August 2010
SSMO LenSpetsSMU	Non-profit Partnership Association of Developers of Saint Petersburg	0112.01-2009-7802084569-C-003	Particular activity types regarding construction, reconstruction and major repair	19 August 2010
LenSpetsSMU- Rekonstruktsiya	Non-profit Partnership Association of Developers of Saint Petersburg	0224-2009-7814128330-C-3	Particular activity types regarding construction, reconstruction and major repair	11 February 2010
Management Company Etalon	Non-profit Partnership Association of Developers of Saint Petersburg	0990-2010-7814116230-C-3	Particular activity types regarding construction, reconstruction and major repair	22 April 2010
Novator	Non-profit Partnership Association of Developers of Saint Petersburg	GP-98-2009-7814118396-C-3	Admission to act as general contractor	23 September 2009
Novator	Non-profit Partnership Association of Developers of Saint Petersburg	0098.02-2009-7814118396-C-003	Particular activity types regarding construction, reconstruction and major repair	2 September 2010
MFTC	Non-profit Partnership Association of Developers of Saint Petersburg	0166.01-2009-7803071996-C-003	Particular activity types regarding construction, reconstruction and major repair	19 August 2010

Our construction materials production subsidiary, ZSM Etalon, holds a license No. LOD-02093-T0 for exploration and extraction of loam on the minefield located three kilometres northeast of the Sapernaya station in the Leningrad region. The license has an expiration date of 31 December 2022.

COMPETITION

Competition in the real estate industry in Russia is highly intense. Competitive factors include the size of land reserves, the geographical location, the types of property offered, brand recognition by customers, creditworthiness, prices and design quality. There are many property developers that undertake residential property development projects in the St. Petersburg Metropolitan Area, including LSR, SU-155 and Mirland, and in the Moscow Metropolitan Area, including PIK, SU-155, Sistema-Hals, Don-Stroy and Inteco. We expect that additional international property developers will try to enter both the St. Petersburg Metropolitan Area and Moscow Metropolitan Area markets in the future. Many of these developers may have greater financial, marketing, land and other resources than we do, as well as greater economies of scale, broader name recognition, a longer track record and more established status in certain markets.

We believe, however, that our strategic focus on the lower middle class and upper economy class price segments limits our direct competition to two property development companies: YIT Group in the St. Petersburg Metropolitan Area and Glavmosstroj in the Moscow Metropolitan Area.

For more information on competition, see “*Risk Factors — Risks Relating to Our Business — The real estate industry in Russia is highly competitive, and we may not be able to compete successfully*”.

EMPLOYEES

The following table sets forth the approximate number of our employees in each of our business divisions as of 31 December 2008, 2009 and 2010.

	As of 31 December		
	2008	2009	2010
Real estate development	409	366	558
Construction and design	2,584	2,099	2,107
Construction materials	405	320	319
Services and maintenance	492	519	530
Sales	201	173	160
Total	<u>4,091</u>	<u>3,477</u>	<u>3,674</u>

Our staff remuneration structure consists of a base component, calculated according to the qualifications and experience of the employee, and a performance-related bonus. The remuneration structure of our employees engaged in construction is performance-based in line with local market practices. We make mandatory social security contributions for our employees to the government pension programme in Russia but do not maintain any voluntary pension fund and have no agreements with our employees to provide pension or retirement benefits.

We believe our employees do not belong to any official trade union, labour or workers’ syndicate and there are no collective bargaining agreements between us and our employees. We have not experienced any work stoppages in the past and consider relations with our employees to be good.

Health and Safety

Real estate development and construction materials production can be dangerous activities, and we are subject to the general risk of accidents involving heavy equipment and machinery and performing work at dangerous heights.

We consider the health and safety of our employees to be our most significant responsibility in connection with our operations. We strive to create a healthy and safe working environment at each of our facilities and sites by assessing the potential risks faced by our employees and implementing appropriate safety measures. We also educate our staff as to these risks through annual occupational safety workshops and ensure that they have a sufficient knowledge of workplace safety procedures before they are permitted to work on a site or in a facility. We follow Russian industry safety standards applicable to each of our operations. For instance, all our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections upon installation of any equipment in order to ensure proper installation and safety. We believe that we comply in all material respects with all safety laws and regulations applicable to our business. Although we believe our operations to have sufficient safety measures in place, the nature of our business is such that accidents may occur.

Moreover, while we strive to reduce our injury rates by implementing high safety standards at our facilities, there can be no assurance that accidents in the future will not occur.

In addition, we provide our employees with an opportunity to enter into voluntary medical insurance programmes under contracts with LLC Medical Insurance Company RESO-Med, OJSC Insurance Company RESO-GARANTIA, JSC Moscow Insurance Company and OJSC Insurance Group MSK.

The table below summarises our safety record for the relevant periods:

	For the year ended 31 December		
	2008	2009	2010
Accidents	21	2	7
Fatalities	<u>1</u>	<u>2</u>	<u>0</u>
Total	<u>22</u>	<u>4</u>	<u>7</u>

While we strive to reduce injuries and fatalities by implementing high safety standards at our facilities, there can be no assurance that serious accidents in the future will not occur. See “*Risk Factors — Risks Relating to Our Business — Our operations are subject to various risks and hazards associated with the nature of our production facilities and equipment*”.

ENVIRONMENTAL CONSIDERATIONS

We are subject to various environmental laws and regulations, which vary according to the location of our proposed developments as well as the environmental conditions and present and former uses of such sites. The preliminary design specifications for each of our developments must be approved by various federal, regional and local bodies, including by the relevant environmental protection authorities. Any environmental issues arising during the course of development are addressed with the appropriate environmental authority. We also are required to carry out soil testing in order to obtain a construction permit. Before being put into operation, all our residential buildings undergo an environmental inspection. To date, no significant violations of any environmental regulations were detected with respect to our construction projects.

In addition, each of our manufacturing, production and processing facilities has received a set of documents regulating environmental issues related to our production activities, including limits of permitted emissions of different types (issued by Rostekhnadzor), standards for waste (issued by Rostekhnadzor) and production controls for regulated sanitary zones (approved by the Sanitary-Hygienic Service of the Russian Federation). We regularly monitor the environmental impact of our operations at each of these facilities. Our quality control systems include environmental protection procedures such as controls for observance of standards for waste with respect to each production unit and controls for water contamination, noise pollution and air pollution in regulated sanitary zones.

We believe that we are in material compliance with all environmental laws and regulations to which we are subject. We currently are not subject to any material environmental claims, lawsuits, penalties or other actions. See “*Risk Factors — Risks Relating to Our Business — More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the Russian regions where we operate may have a material adverse effect on our results of operations, and we may be subject to environmental liabilities in connection with certain properties owned and/or leased by us*”.

INTELLECTUAL PROPERTY

We place significant emphasis on developing our brand image and engage in trademark registration to protect all aspects of our brand image. As of 31 March 2011, we have a number of registered and valid trademarks, including “LenSpetsSMU” and “sreda”. Since 2005, we have a registered advertising slogan “Buduscheye stroitsya segodnya” which means “The Future Is Built Today”, valid through the year 2015. We also registered trademark “Etalon” and the blue-black Etalon logo, which registration is effective through the year 2012 in both cases.

In addition, SSMO LenSpetsSMU is an owner of a trademark (service mark) for various chemical products, and a design patent in an advertising toy, registered in 2003 and 2007, respectively.

We have also registered the domain name of www.etalongroup.com for the website of our Group on the Internet.

INSURANCE

We maintain insurance policies with some of the leading Russian insurance companies, including JSC Rosgosstrakh, AlfaStrakhovanie PLC, Insurance Company of Gaz Industry SOGAZ and a number of other insurers.

Our development companies do not normally obtain insurance coverage with respect to the development’s construction. As a rule, our general contractors obtain insurance against construction risks payable to us, including

against damage to construction vehicles and equipment and civil liability. Insurance with respect to our liability under the state contracts is obtained from OJSC Insurance Group MSK.

We also maintain property insurance covering the vehicles and machinery at our production facilities. We are required to maintain insurance for certain items of equipment pursuant to the financing or leasing arrangements. We carry fleet insurance against theft and damage for all of our vehicles (both owned and leased), as well as third party liability vehicle insurance as required by Russian law. We also carry insurance relating to the use of hazardous industrial facilities as required under Russian law. Other than where required to do so by law we do not hold third-party liability insurance.

Property insurance covering our vehicles and machinery are provided by several insurance companies including AlfaStrakhovaniye PLC and JSC Capital Insurance. Our car fleet insurance against theft and damage, as well as third party car insurance, are obtained from JSC Rosgosstrakh, OJSC Renaissance Insurance and OJSC Insurance Group MSK. Insurance with respect to our liabilities for damages incurred by defects in properties constructed by us is provided by Insurance Company of Gaz Industry SOGAZ.

While we carry insurance against what we consider the principal risks associated with our business, we are not covered against all potential risks and losses that could affect our operations. For example, we currently have no coverage for business interruption or the loss of key management personnel, nor do we have insurance against claims for construction defects. No assurance can be given that our insurance will be adequate to cover all of our losses or liabilities, nor can assurance be given that insurance will continue to be available to us on commercially reasonable terms. See *“Risk Factors — Risks Relating to Our Business— We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all”*.

LEGAL PROCEEDINGS

From time to time, we are involved in litigation in the ordinary course of our business activities, such as disputes with contractors and third parties.

On 27 December 2010, PetroNefteProduct brought a claim against our subsidiary, SSMO LenSpetsSMU, in the Arbitrazh Court of St. Petersburg and the Leningrad region. In the claim, PetroNefteProduct seeks to obtain the rights and obligations of the buyer under the contract dated 28 September 2010 entered into between SSMO LenSpetsSMU and the Ministry of Defence of the Russian Federation. Under the contract in question, we acquired two appurtenant land plots for our portfolio project, located at Oktyabrskaya embankment—118, through an auction held by the Ministry of Defence. In accordance with our business practice, shortly after the acquisition of land rights, we began site preparation activities, which included demolishing of the real estate objects on the land plots. Among other things, PetroNefteProduct alleges that, as the owner of the railway tracks in question, it had a pre-emptive right to purchase the land plot, which was violated by SSMO LenSpetsSMU. On 27 December 2010, PetroNefteProduct also filed a motion on interim relief to obtain an order for deposit of funds by SSMO LenSpetsSMU on the account of the Office of St. Petersburg Court Department. On 9 February 2011, the Court dismissed the motion on interim relief on the grounds of non-compliance of the motion with legal requirements.

On 9 February 2011, the Court accepted the claim. On the same day, PetroNefteProduct filed a motion on interim relief to obtain an order for termination of dismantling of the railway tracks, which was subsequently dismissed by the Court on procedural grounds. The preliminary hearing that was to take place on 15 March 2011 has been rescheduled for 26 April 2011, due to claimant’s non-attendance. We believe that we have strong defences to the stated allegations and intend to contest this claim vigorously.

Neither we nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which we are aware) during the 12 months preceding the date of this prospectus that may have, or have had, a significant effect on our business, financial position or profitability.

REGULATION OF REAL ESTATE IN RUSSIA

Below we briefly describe certain key provisions of the Russian legislation relating to real estate construction and development. This description, however, is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

OVERVIEW

Definition of Real Property

Russian legislation defines real estate as land plots, subsoil plots, buildings and structures, undeveloped constructions, and everything that is closely connected with land (i.e., objects that cannot be moved without damage to their use) as well as other facilities which are not connected with land but referred to a real estate by a Russian law. Russian federal real estate legislation is primarily based on:

- the Civil Code,
- the Land Code,
- the Town-Planning Code of the Russian Federation (the “**Town-Planning Code**”),
- the Federal Law “On State Registration of Real Property and Transactions Therewith,”
- the Federal Law “On Mortgages” (the “**Mortgage Law**”),
- the Federal Law “On State Cadastre of Real Estate,” and
- the Federal Law “On Turnover of Agricultural Land.”

Regional legislation should not contradict Russian federal law; in practice, however, certain aspects of Russian regional legislation may contradict federal law.

State Registration of Rights to Real Property

Since 1998, under Russian law, ownership rights to and certain transactions with real property require State registration in the Register. The rights and the transactions that are subject to State registration in the Register include, but are not limited to, the following: the right of ownership to newly-built buildings and facilities, the right of ownership to land plots, transfer of title to real property through some sale and purchase transactions, mortgage agreements and land plot and building lease agreements for terms of over one year. Rights to real property and transactions therewith are registered by the department of the registration authority (i.e., the Rosreestr) in the relevant territory where the property is located. Rights to real property that are subject to registration legally exist upon the relevant State registration. Absent State registration transactions with real property have no legal effect and rights to real properties are not deemed to be created.

Information from the Register is publicly available and can be utilised to confirm registered ownership rights. The Register contains important information about the registered property, including, among other things, a description of the real property, the owner’s name and any registered encumbrances on the property. State registration is evidenced by a Certificate of State Registration as well as an extract from the Register. Registration in the Register represents an entitlement to the issuance of a Certificate of Registration of Rights. Registered rights to the real property may be challenged in court if the grounds for provision of the ownership or other rights are invalidated.

Ownership or other rights that were acquired before 1998, prior to the requirement for State registration, are deemed valid without such registration. Therefore, the Register is not comprehensive, as ownership or other rights acquired before 1998 will most likely not be included in the Register. At the same time, ownership or other rights acquired before 1998 may be voluntarily registered at the discretion of the owner. In addition, such rights will be subject to obligatory State registration in some cases; for example, in the event that a transaction with respect to such rights is entered into.

With respect to buildings, State registration is usually only carried out on a completed building. Although it is possible to register a building under construction as an unfinished construction, in practice this is cumbersome and very rarely happens, not least because subsequent State registration of the completed building is still required. In addition, registering an unfinished building is relatively new under Russian law and is therefore not widely done. Only when State registration is completed a building may be disposed of, mortgaged or leased. Any transfer of ownership must also be registered to be effective.

The State registration must normally be completed by the authorities within one month of any properly documented application. If, however, registration authorities doubt whether grounds for such registration are present, the

authorities may demand supplemental documentation or an amended application and suspend registration for one month. Such registration may be rejected in certain cases provided by law; in particular, if our application does not comply with the applicable requirements.

Under Russian law, State-owned land may be owned by federal or regional authorities, whereas local lands may be owned by municipal authorities. Historically, such State-owned lands have not been registered in the name of any particular State authority. However, in 2001, the Russian Federation began a delineation process whereby such State-owned lands are to be registered in the name of a particular authority, either federal, regional or municipal. This delineation procedure has yet to be completed.

Ownership of Real Estate

Russian law recognises the right to own, to use and to dispose of real estate, such as buildings and underlying land. Russian law makes an important legal distinction between land and buildings, which are treated as separate legal interests.

Both the Civil Code and the Land Code permit private land ownership and the transfer of land from one person to another. The Land Code generally provides that foreigners may own land on the same terms as Russian nationals, save for certain exceptions. The most notable exception is a prohibition on foreigners owning land near Russia's borders and in certain other territories specified by a federal law. In addition, Russian law prohibits foreign owners, as well as Russian companies with more than 50.0% foreign charter capital, from acquiring ownership title to agricultural lands in Russia.

Only land plots with a State cadastre number, which is given upon registration of a land plot in the Real Estate Cadastre that records the details of land plots such as their measurements and boundaries, may be traded in accordance with sale and purchase agreements. Most land in Russia has not yet been incorporated into the Real Estate Cadastre.

The Land Code establishes the procedure for privatising both State and municipally owned land. The Federal Law "On Entry into Force of the Land Code" establishes the maximum price that owners of buildings on a land plot may be required to pay for such underlying land plot. The price depends on the size of the population in the area where the land plot is located. In the city of St. Petersburg and Moscow, for instance, the maximum price for the purchase of land plots underlying buildings is thirty times the amount of the applicable land tax per unit of area of the land plots. These rules on price determination are effective until 1 January 2012.

Under the Land Code, legal entities may generally have one of the following rights with regard to land plots: (i) ownership right; (ii) leasehold right; or (iii) right of perpetual use. Legal entities may also have a right of free use for a fixed term or a private servitude. Public servitudes may be imposed and upheld by federal or local authorities. Although ownership rights to land plots are increasing, they remain relatively rare in most parts of Russia. The St. Petersburg, Moscow, Leningrad region and Moscow region authorities, for instance, own the majority of the underlying land in the respective regions, and owners of buildings typically enter into lease agreements with such authorities.

Most of the land earmarked for private development is currently held by investors who have acquired a lease from the relevant State or municipal authorities. Although some legal entities may also have obtained a right to perpetual use of land prior to the enactment of the Land Code, such an interest in land is relatively rare in connection with property development markets in the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area. In addition, the Land Code generally provides that legal entities (excluding State and local institutions, certain State-owned enterprises and State, regional and municipal authorities) using land pursuant to a right of perpetual use must either purchase the land from, or enter into a lease agreement relating to the land with, the State or municipal owner of the land by 1 January 2012.

In general, everyone may own a building without any discriminatory restrictions, including foreign companies. An owner of a building is generally allowed to sell or lease it without any requirement to obtain State consent unless such sale falls within the remit of the FAS, in which case consent is required.

Under Russian law, the ownership of a facility, such as a building, can be separate from the ownership of the underlying land on which the facility stands. However, the sale of a building automatically gives the purchaser a right to use the underlying land on the same conditions and to the same extent as the previous owner of a building. In such a case, the owner of a building has to formally establish the right to use the land plot by virtue of an ownership right or lease right, as applicable, by entering into contractual arrangements with the land owner. In addition, the owner of a building located on another party's private land has a pre-emptive right to buy or lease such underlying land.

The law of the city of Moscow “On Land Use in the City of Moscow,” enacted on 19 December 2007, provides that the exclusive method of granting rights to land by the Moscow Government is by a grant of leasehold interests to such land except in cases where a federal law mandatory prescribes that ownership (freehold) right, the right of permanent use or the right of free of charge temporary use to the land plot, must be granted. Similarly, the previous regulation on the land use and construction in the city of Moscow which had been in effect since May 2003 provided that the preferred method of granting rights to land by the Moscow Government was by a grant of leasehold interests to such land. In practice, developers generally become owners of the buildings/facilities on the land in Moscow, but do not become owners of the land on which such buildings/facilities are located. At the same time, there is also private ownership to the land in Moscow, which, however, remains relatively rare. Russian and non-Russian persons and legal entities may acquire land held by federal, regional or municipal authorities for the development and construction of new buildings. The Land Code prohibits refusal by State or local authorities to grant rights to land plots for construction purposes except where the sale of a land plot is prohibited (for example, certain land plots have been specifically withdrawn from circulation and thus are prohibited from being leased) or restricted (certain land plots may not be transferred into ownership but may be leased) by federal law, or the land plots are reserved for State or local needs. Any such refusal may be appealed in the Russian courts.

Russian law provides that private land or buildings may be expropriated for “State or municipal needs.” The owner of expropriated real estate is entitled to one year’s advance notice together with payment of the full market value determined by agreement with the respective state or municipal authority or by decision of a court and compensation for any other losses suffered.

Leases

It is generally possible for anyone to lease land throughout Russia on terms which are regulated by the Civil Code and the Land Code. Lease terms vary, although lease agreements will often provide for a right of renewal on expiry. Most of the land leases concluded in the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area provide that, upon expiration of the lease, the tenant has a pre-emptive right to conclude a new land lease agreement with the respective city or regional authorities on the terms and conditions agreed between both parties to the agreement. A lease of real estate, including land, for a term of one year or more must be registered in the Register. A real estate lease concluded for less than one year does not require such registration. Rental rates for private land are not restricted by legislation. Where, however, the land is owned by the State or municipality, the rates are unilaterally determined generally, on an annual basis, by the owner. The transfer of ownership of land will not change the terms of a lease granted over it.

Mortgages

Under Russian law, a mortgage is a form of security taken over real estate to ensure due performance of a monetary obligation. A mortgage agreement must be registered with the Register and takes effect as of such registration. If the debtor defaults, the mortgagee can generally pursue a claim in Russian courts or can levy execution in an extrajudicial procedure on the basis of an agreement of the parties for the sale of the mortgaged property and for settlement of its claim out of the proceeds of such sale. The agreement on extrajudicial procedure can either be made simultaneously with entering into the mortgage agreement (e.g. the relevant provisions can be incorporated into the mortgage agreement) or be entered into by the parties as a separate contract. However, the Mortgage Law specifically prescribes that the agreement providing for extrajudicial execution of the mortgaged property may only be valid provided that the mortgagor has given a notarised consent to execution through the extrajudicial procedure. In the event of bankruptcy, the claims of a mortgagee will be satisfied from the value of the property mortgaged to such mortgagee.

A mortgage of a lease normally requires the landlord’s consent. However, a mortgage of a lease of a State-or municipally-owned land plot for a period of more than five years typically requires only a notification to the tenant (and not its consent). Unless the mortgage terms provide otherwise, a mortgage of land applies to the mortgagor’s buildings and undeveloped constructions (registered as real property) located on the land as well. In addition, if a land plot or buildings are acquired or constructed using debt finance provided for the specific purpose of financing the acquisition or construction, then the land and buildings are deemed to be mortgaged in favour of the lender unless otherwise provided by law or by agreement of the parties. The right of mortgage is created when the borrower’s ownership or lease rights to the land plot are registered in the Register. Furthermore, if the acquisition or construction of a building is financed by borrowed funds provided for such construction or acquisition, the ownership or lease rights to the land plot on which such building is located are mortgaged to the lender by operation of law, unless otherwise provided by agreement of the parties.

Liabilities of Persons Holding Rights to Land and Buildings

Owners of land plots and buildings are required to comply with federal, regional and local legislation, which includes, among others, environmental, public health, fire, residential and town-planning rules and regulations. The owner of a building generally bears all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land plot in accordance with its permitted use (i.e., as provided by zoning requirements), not cause harm to the environment, assume the liability and financial costs relating to compliance with various land use standards and not allow the pollution of, littering on or degradation of the land plot. Regional or local legislation, or an investment or lease contract entered into with the regional or local authorities, may also subject the owner or the developer as the future owner of the buildings to be constructed under the investment or lease contract to various financial obligations, such as the financing of local engineering services, transportation and social infrastructure, as well as reimbursing certain expenses to the previous tenants of the land plot.

CONSTRUCTION AND DEVELOPMENT

General Provisions

Construction and development in Russia is a complex multi-stage process, which involves compliance with many regulatory requirements, and obtaining authorisations from a large number of authorities at the federal, regional and local levels. Development in Russia is primarily governed by the Town-Planning Code, Civil Code, Land Code, and other federal laws and regulatory acts. In addition, construction activity is subject to regional and local regulation. Under Russian federal law, the basic steps required for commencement of construction projects are (i) approval of town-planning documentation, (ii) engineering research, (iii) approval of the detailed design documentation and the results of engineering research, and (iv) issuance of a construction permit. Such steps must be exercised in the listed sequence. For example, detailed design documentation is developed on the basis of the results of engineering research, while a construction permit can only be issued once the detailed design documentation and the results of engineering research have been approved. In addition to the above basic approvals, a developer must have rights to the land in order to begin construction.

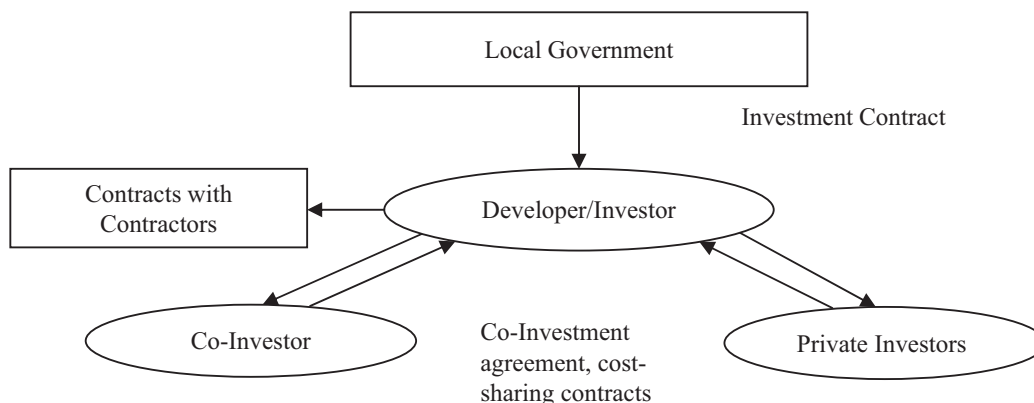
Licensing

Since 1 January 2010 activities relating to the construction and development of buildings in Russia are not subject to licensing any more. Instead, each developer must participate in a non-profit self-regulated organisation and obtain a certificate of approval from such organisation. Certificates of approval are obtained with respect to the developer and certain type or types of activity, not to a particular development project. Pursuant to the Town-Planning Code any structural engineering, construction and engineering survey of buildings which affect safety of buildings is subject to approval by self-regulating organisations.

In addition, any construction activity on a particular development project may only be performed under the construction permit issued by the competent governmental bodies pursuant to agreed and approved project documentation.

Participants in the Construction Process

The construction process in Russia involves local government, the developer (investor), the purchaser and the contractor (general contractor and sub-contractors). The chart below sets forth the structure of legal relations between such participants.



Stages of Construction

The main stages of the building construction process typically include the following:

- entering into an investment contract with the local authorities;
- obtaining the land rights;
- preparation of project documentation and obtaining infrastructure/utilities documentation;
- obtaining a construction permit;
- performing construction works;
- obtaining an operational permit; and
- registration of title to the new building.

Some of these key stages are described in more detail below.

Title to a building is first conferred on the developer once the building is constructed. Furthermore, a building-owner has the right under the Land Code to require the owner of the land on which the building is situated to sell or lease that land to the building owner for a fixed price represented by the land tax payable for that land multiplied by a coefficient set out in the relevant regulations.

Accordingly, if we have obtained development rights that allow us to carry out a project and complete a finished building, we will not typically need to acquire freehold or leasehold title to the underlying land at the commencement of the project because under the Land Code we can require the landowner to sell or lease the land to us at a fixed price after our project is completed.

Investment Contracts

As a general rule, an investment contract is a written agreement between a local administration and a developer (investor) that, among other things, defines the principal terms of proposed construction of a property by the developer. Generally, the investment contract provides for a certain “share of the city (region)” in the property to be constructed (i.e., the number of square metres that will belong to the respective city government). Currently in the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area, under an investment contract, the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area authorities generally retain an interest of up to 50% in the completed building or structure, although the St. Petersburg Metropolitan Area and the Moscow Metropolitan Area authorities usually agree to sell its share to the developer or substitute it with other property. Such city or region share may be lower (up to zero) if the developer agrees to incur additional expense in relation to the development (i.e. city or social infrastructure improvements). In some cases, the authority consents to the developer buying out its share of building or facility prior to, or upon, completion of construction.

The award of investment contracts in the St. Petersburg Metropolitan Area, as opposed to the Moscow Metropolitan Area, is normally carried out by public tender.

The investment contract formalises a development opportunity and the general approval by the governmental bodies of a specific development project. The actual realisation of this project, however, depends on procurement of various procedures, obtaining numerous approvals and consents, and fulfilment of other requirements. In some cases, the investment contract is entered into at a later stage of construction and some projects are carried out without investment contracts.

Russian legislation does not provide a definition of the investment contract. As a result, Russian courts, based on the contents of a specific investment contract may qualify it as a general partnership agreement, joint-venture agreement, construction contract or a combination of such contracts or other contracts stipulated by the Civil Code. The investment contract would generally provide for the types of properties that could be constructed at the site and approximate area of each such property. However, the actual types and areas of properties which would be allowed for construction under the respective construction permit may substantially differ from those fixed in the investment contract. See also *“Risk Factors — Risks Relating to Our Business — Real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because determining such values is an inherently subjective process. In addition, an appraisal may not be directly comparable to those given in respect of similar portfolios held by other real estate development businesses in the Russian market as a result of differing assumptions and methodologies.”*

Obtaining Land Rights

A developer must have land rights in order to begin construction. Land in the Russian Federation is divided into the following specific categories depending on the designated purpose of such land: (i) agricultural land; (ii) settlement land; (iii) industrial land; (iv) protected land; (v) forestry land; (vi) water front land; and (vii) reserve land. The Land Code requires that each category of land must be used in accordance with its designated purpose. Normally, to carry out a commercial or residential development, property developers need to have the land plots (on which their buildings/structures are located) designated as settlement or industrial land. The main procedures for changing the designated purpose of land are set forth in the Land Code and the Federal Law No. 172-FZ “On Reclassification of Land or Land Plots” which was adopted at the end of 2004.

As a general rule, land rights for development purposes may be obtained through an investment contract. On the basis of investment contract, the land lease is granted for the purpose of carrying out the construction as well as exploitation of the constructed property on the relevant land plot. As a general rule, land lease for residential construction should be granted by auction. Under the Town-Planning Code, the location of a new property must comply with the relevant town planning documentation that defines the functional zoning and town-planning rules of organisation and use of the territory.

Construction Permit

Construction on an allocated land plot may only be carried out after obtaining a construction permit either by the owner or by other person having the rights over the land plot. The construction permit is a final construction approval which entitles the developer to commence construction on the land plot and, therefore, such permit needs to be obtained before construction commences. Failure to obtain such a construction permit prior to the commencement of construction may be regarded as a violation of Russian law and may lead to administrative fines against the developer and demolition of the buildings as unauthorised construction. Obtaining a construction permit is a multistage process, which includes, among other things, obtaining approvals on design documentation and the results of engineering research from and registering the project documentation with a number of governmental bodies including architectural and urban development agencies, environmental management and protection agencies and governmental bodies that oversee public health issues. The construction permit is issued for no more than three years and may be extended. To the extent the scope and nature of the project change, the construction permit may be amended. The construction permit may be withdrawn before its expiration date; in particular, in the event of a material breach in the project documentation, building and architectural rules and regulations and/or on other grounds.

Certain preparation works may be commenced on the site of future construction before obtaining a construction permit. In this event it is necessary to obtain an order for preparation and maintenance of the construction site. Upon expiration of the order or in the event that the nature of the works changes, the order can be prolonged or amended. The order can be withdrawn in the event of a material breach in the project documentation, building and architectural rules, failure to remedy breaches detected by the respective authorities and failure to comply with the nature of works specified in the order. In the absence of the order it is forbidden to start any works on the site.

Operational Permit

Upon completion of construction, the building must be approved by the representatives of various authorities, developer, executive authorities, contractors, construction designers, operating organisation, public health authorities, State fire supervision services, architectural and urban development agencies, environmental management and protection agencies and other State authorities. When such approval is granted and an operational permit is issued, then the final measurement of the premises for the purposes of State registration is completed and the rights to the completed property, including the rights of the private investors who financed the construction, may be registered with the Register.

Restrictions in the St. Petersburg Preservation Zone

Pursuant to legislation, the historical centre of St. Petersburg has been divided into several “preservation zones”, each governed by specific regulations. All projects within these zones are subject to special requirements established by federal and local legislation, which are designed to preserve the existing system of city planning and the surroundings of the historical buildings, to prevent increased pollution levels and fire risks around historical buildings, to remove industrial enterprises and to renovate workshops and storage facilities which have a negative physical or aesthetic impact on historical buildings.

Under these local laws, the St. Petersburg Authority for Monument Conservation must approve the project documentation for any development located within a preservation zone. In addition, the demolition, replacement, or alteration of an historical building, or part of a building, such as a facade, which has been declared historical under heritage laws, is prohibited within the preservation zone, unless carried out in strict compliance with approved project documentation. For example, if only the facade of a building is protected for heritage purposes, we may be permitted to completely redevelop the property so long as the facade remains intact.

In the most heavily regulated preservation zone, new construction is prohibited, except for projects aimed at the conservation and/or restoration of old culturally significant objects. In other preservation zones construction is permitted, but regulations governing the construction of high-rise buildings must be complied with. Demolition of historical buildings (built before 1917) is prohibited within all preservation zones.

Construction in the City of Moscow

Whereas the city of St. Petersburg, the Leningrad region and the Moscow region have adopted rules and regulations that are generally in compliance with the federal requirements described above, the city of Moscow has adopted rules and regulations covering the real estate construction and development process that are specific to Moscow and that often differ from what is required under federal legislation. Construction in the city of Moscow is governed principally by the laws of the city of Moscow “On Land Use in the City of Moscow” and “Town-Planning Code of the City of Moscow.” In accordance with the Moscow legislation, as a general rule investment contracts for the construction of new buildings or reconstruction of buildings in Moscow (in the case of private financing) may be entered into through tender procedures.

Moscow legislation distinguishes between construction by developers who have already obtained land lease rights for construction purposes and those who have not yet obtained such rights to the land. A potential developer which leases a land plot for the purpose of construction and intends to construct a building thereon must apply to the relevant governmental authorities for a city development plan of the land plot. In accordance with Moscow legislation, a city development plan of the land plot is a fundamental approval which defines the possible use of the land plot and the maximum parameters of the permitted construction.

Developers which do not have land lease rights that allow for construction have to obtain such rights in order to proceed with construction. Generally, in practice, a developer receives land lease rights for three to five years (i.e., for the period of construction) from the city of Moscow on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments. Subject to the successful implementation of the land plot development and the fulfilment by the investor of the various obligations under the investment contract with the city of Moscow, the investor receives land lease rights for a term of 25 to 49 years, at the discretion of the Moscow city government.

RESIDENTIAL CONSTRUCTION

Key Features

Until the early 1990s, most apartments in the Russian Federation were State or municipally owned. However, since that time many apartments have been privatised or constructed by investors, and are now in private ownership. Generally, a land plot for residential construction should be granted by auction. Once the lease agreement is executed or if there is an existing lease agreement, the developer must prepare the permitting documentation for construction, which consists of applications for various approvals and permits from various federal and local authorities, including environmental, architectural, land, sanitary, geological and other authorities. Project documentation for residential construction is subject to State expert approval.

In order to obtain the operational permit, the developer should, upon completion of construction, file an application with the State authority that issued the construction permit and present the documents confirming that the development has complied with the initial permit and project documentation. Final measurements of the premises in the completed building for the purpose of State registration must be carried out by the Bureau of Technical Inventory. The parties to any relevant investment contract are also required to execute the final protocol certificate confirming that all of their respective obligations under the investment contract have been performed.

The operational permit, along with the resolution of the local authorities, the investment contract (and, if applicable, the final protocol certificate relating to it), and the measurement documentation prepared by the Bureau of Technical Inventory serve as the basis for the State registration of the ownership of the residential premises. In most cases, rights of individuals to apartments in the constructed building arise at the moment of the State registration on the Register. Upon such registration, the owner of the apartment additionally receives the right to a share in the

ownership of the common areas of the building, halls, stairs and elevators, as well as electric and engineering equipment located outside or inside the apartment that is used by more than one apartment.

Upon completion of a development, a Cooperative or a Partnership may apply to the state authorities for a gratuitous acquisition of the ownership rights to the land plot at which the completed development is located (irrespective of whether such land plot is held by the State or municipal authorities or is in private ownership). The land plot to be transferred is measured as a perimeter shear of the building. Once the rights to the land plot are acquired, the lease agreement with a developer is terminated. A Cooperative or a Partnership may also apply for obtaining ownership or lease rights to the adjacent territory. In this case, the rights are granted in return for the payment of purchase price or rent.

Financing and Sale

Residential construction may be financed both by funds provided by the developer and third parties. Funds may be raised, among other ways, through borrowing or direct investment in the construction by outside investors. Raising funds from future owners of apartments at various stages of construction has been one of the principal ways of financing residential construction in Russia. In the majority of development projects in the past nearly all apartments were sold in advance immediately after the beginning of the construction process by means of execution of co-investment contracts, contracts on share participation in the construction or joint activity contracts with private investors. This process led to contradictory results in court and offered little protection to private investors from unscrupulous developers.

This type of financing is regulated by the Cost Sharing Law. The Cost Sharing Law prohibited developers from raising funds prior to (i) obtaining a construction permit, (ii) publishing a project declaration (summary information on the developer and its project), and (iii) having registered its rights to the land plot intended for construction.

The Cost Sharing Law aims to protect the rights and interests of corporate and, especially, private investors in cost sharing projects, among other things, by providing for the following:

- cost sharing financing may be raised only by a developer who has received a construction permit, published a project declaration and registered its rights (either ownership or leasehold) to the land plot intended for the construction;
- cost sharing investment contracts are subject to State registration;
- investors' funds are secured against the developer's default under the investment contract by (i) mortgage of the land plot and the project under construction, or (ii) bank's surety;
- individual investors are entitled to an increased statutory interest payable by the developer who failed to perform under the investment contract;
- public disclosure of information about the developer and the project at least 14 days before entering into the cost sharing contract with the first customer is established; and
- administrative liability is contemplated for developers who raised cost sharing financing in violation of the Cost Sharing Law, including, among other things, the failure to obtain a construction permit, publish a project declaration or make full disclosure in such a declaration and comply with reporting requirements.

REAL PROPERTY TAXATION

Corporate Property Tax

The corporate property tax is established by the Tax Code. Entities subject to the tax are legal entities, including foreign legal entities and organisations, owning certain types of property including real estate located in the territory of the Russian Federation. The tax rate is established by regional authorities, but cannot be higher than 2.2%. As of the date of this prospectus, the tax rate in most major regions, including the St. Petersburg Metropolitan Area and Moscow Metropolitan Area, is 2.2%. Generally, the taxable base is the average annual net book value (generally calculated as the historical cost per statutory accounts less statutory depreciation) of the property. In general, the taxable base includes assets qualified as fixed assets under Russian financial accounting rules. However, land and certain non-productive types of property are specifically excluded. The tax is payable on a quarterly basis.

Land Tax

The land tax is also established by the Tax Code. Those subject to the tax include individuals and legal entities possessing land plots by rights of ownership, permanent use and lifetime inheritable possession. The tax rate is established by the local Russian authorities, but may not be higher than (i) 0.3% for land plots categorised as land for agricultural use, land under housing facilities and land under personal subsidiary plots, horticulture, cattle breeding and summer cottages, and (ii) 1.5% for other land plots. The land tax is calculated based on the cadastral value of the land plot. For legal entities, the tax is payable on a quarterly basis.

Land Rent

The rules for determining the amount and the order of rent payments for land owned by the Russian Federation, Russian regions or municipalities are imposed by the relevant public authority. In addition, local authorities are empowered to require payment of a separate fee by the lessee for the right to conclude a lease agreement.

Tax on Residential Properties

Currently, individuals pay an annual property tax on real estate property of which they are the legal owner, at rates between 0.1% and 2.0% of the inventory value of the property. Generally, the taxable base is less than the market value of the property.

Russian governmental authorities are currently debating the imposition of a tax on residential real property owned by individuals to be calculated on the basis of the market price of such property. Although no bills or guidelines dealing with the calculation of such tax rate have been introduced, the adoption of such a tax rate could have a material adverse effect on the Russian market for residential properties.

DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

OVERVIEW

According to our articles of incorporation, our business and affairs are mainly managed by the Board of Directors. A brief description of the Board of Directors is set out below.

BOARD OF DIRECTORS

Our Board of Directors currently consists of ten directors. Five directors are executive directors and five directors are non-executive directors, two of whom are also independent directors.

The following table sets out the name, age, year of appointment and position on the Board of Directors for each director.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>First Year Appointed</u>
Viacheslav Zarenkov	60	Chairman of the Board of Directors	2007
Dmitri Zarenkov	38	Executive Director	2007
Anton Evdokimov	47	Executive Director	2007
Dmitri Boulkhoukov	30	Executive Director	2007
Alexander Shkuratov	33	Executive Director	2007
Michael John Calvey ⁽¹⁾	43	Non-Executive Director	2010
Alexey Kalinin ⁽¹⁾	51	Non-Executive Director	2010
Martin Robert Cocker	51	Non-Executive Independent Director	2010
Peter Harold Touzeau	59	Non-Executive Director	2008
Anton Poriadine	41	Non-Executive Independent Director	2011

(1) Baring Vostok representative.

All of our directors were appointed or re-appointed at the Annual General Meeting on 23 December 2010 with the exception of Mr. Anton Poriadine, who was appointed on 4 April 2011. The terms of appointment for all directors expire on the date of the next Annual General Meeting. The business address of each of the members of our Board of Directors is the Company's registered office.

Viacheslav Zarenkov — Chairman of the Board of Directors, President of the Group

Mr. Viacheslav Adamovich Zarenkov was born in 1951. He graduated from the Leningrad Engineering Construction Institute in 1977 with a degree in engineering construction and from the St. Petersburg University of the Ministry of Interior in 1999 with a degree in law. He was awarded Doctor of Economics, a candidate of technical sciences and a candidate of architecture. From 1978 to 1987, Mr. Zarenkov occupied the positions of chief engineer and Department Head of SU-336 Trust No. 72 of Glavzapstroy and then chief technologist of Construction Trust No. 72 of Glavzapstroy. From 1987 to 1996, he was Department Head in Industrial and Commercial Enterprise LenSpetsSMU. From 1996 to 2002, Mr. Zarenkov served as General Director of SSMO LenSpetsSMU, and from 2002 to 2007, as General Director (President) of Management Company Etalon. Since 2007, Mr. Zarenkov has been Chairman of our Board of Directors and President of the Group. Mr. Zarenkov has received the Honoured Builder of Russia award.

Dmitri Zarenkov — Executive Director, First Vice-President of the Group

Mr. Dmitri Viacheslavovich Zarenkov was born in 1973. He graduated from the Leningrad Institute of Aeronautical Instrumentation in 1996 with a degree in engineering research, from the St. Petersburg University of Architecture and Civil Engineering in 2000 with a degree in engineering construction and from the St. Petersburg University of the Ministry of Interior in 1999 with a degree in law. He was awarded a candidate of technical sciences. From 1995 to 1998, Mr. Zarenkov occupied various positions in CJSC Electronstroy-1, including the posts of engineer of 1st category and General Director. From 1998 to 2006, he served as deputy General Director and then as General Director of SSMO LenSpetsSMU. From 2006 to 2007, he was first deputy General Director of Management Company Etalon. Since 2007, Mr. Zarenkov has been an executive director on our Board of Directors, First Vice-President of the Group and General Director (President) of Management Company Etalon. Mr. Zarenkov has received the Honorary Builder of Russia award and was also awarded the Certificate of Honour from the Ministry of Regional Development.

Anton Evdokimov — Executive Director, Vice-President, CFO of the Group

Mr. Anton Viktorovich Evdokimov was born in 1963. He graduated from the Leningrad Engineering Construction Institute in 1985 with a degree in mechanical engineering, from the St. Petersburg State University in 1996 with a degree in international economics and from the International Banking Institute in 1996 with a degree in banking management. He also received an MBA in business strategy in 2005 and a master of science degree in international finance in 2009 in the Open University Business School. From 1985 to 1990, Mr. Evdokimov was an engineer and deputy Head of a laboratory in Trust Stroymekhanizatsiya-1. From 1990 to 1991, he was chief project engineer at State Enterprise Inkos. From 1991 to 1998, Mr. Evdokimov occupied various management positions, including the posts of deputy General Director of LLC Companion Ltd, General Director of CJSC Gialant, Head of Securities Department of CJSC Investments Company VKD, Financial Director and General Director of OJSC Construction and Installation Trust No. 7 and first deputy General Director of CJSC Areal. From 1998 to 2000, he served as executive director and General Director of MFTC. He also occupied the post of deputy General Director of SSMO LenSpetsSMU from 2000 to 2001. From 2001 to the date of this prospectus, Mr. Evdokimov has occupied the position of deputy General Director (President) of Management Company Etalon. Since 2007, he has also been an executive director on our Board of Directors, Vice-President and Chief Financial Director of the Group. Since 2010, he is a member of our audit committee. Mr. Evdokimov was awarded the Certificate of Honour from the Ministry of Regional Development.

Dmitri Boulkhoukov — Executive Director, Head of Investments of the Group

Mr. Dmitri Vladimirovich Boulkhoukov was born in 1980. He graduated from the Moscow State University named after Lomonosov in 2002 with a degree in economics. From 2003 to 2005, Mr. Boulkhoukov occupied various positions as analyst and expert at Carlyle Group, Deloitte & Touche and Ernst & Young. From 2005 to 2007, he served as Vice President of Financial Consulting in a Renaissance Group entity. Since 2007, Mr. Boulkhoukov has been an executive director on our Board of Directors and Head of Investments of the Group.

Alexander Shkuratov — Executive Director, Head of Strategy and Business Development of the Group

Mr. Alexander Alexandrovich Shkuratov was born in 1978. He graduated from the Finance Academy under the Government of the Russian Federation in 2000 with a degree in finance with honours. From 1997 to 2003, he occupied various positions as expert, senior expert and later as lead expert in the audit department, and senior consultant in the corporate finance department of Deloitte & Touche. From 2003 to 2004, Mr. Shkuratov worked as the manager in the corporate finance department of Ernst & Young and from 2004 to 2005, as the senior manager in Carlyle Group. From 2005 to 2007, he served as an investments director of the Moscow Representative Office of Baring Vostok Capital Partners Limited. Since 2007, Mr. Shkuratov has been an executive director on our Board of Directors and Head of Strategy and Business Development of the Group. Since 2010, Mr. Shkuratov has been a member of our audit committee.

Michael John Calvey — Non-Executive Director

Mr. Michael John Calvey was born in 1967. He graduated from the University of Oklahoma in 1989 with a degree in business administration, and from the London School of Economics in 1995 with a degree in international accounting and finance. From 1989 to 1991, Mr. Calvey held the position of financial analyst in Salomon Brothers, and from 1991 to 1994, he served as principal banker in EBRD. From 1994 to 1998, Mr. Calvey occupied the position of Head of the Moscow Representative Office of Sovlink Corporation. From 1998 to 1999, he served as managing partner of the Moscow Representative Office of Baring Vostok Capital Partners Limited (Guernsey, UK). Since 1999, Mr. Calvey has been senior partner of the Moscow Representative Office of Baring Vostok Capital Partners Limited (Cyprus). Between 1998 and the date of this prospectus, he has occupied the position of Director in various companies, including Europlan, Volga Gas, CTC Media, Golden Telecom, Burren Energy, Gallery Media Group and various entities within the Baring Vostok holding structure. Since 2010, Mr. Calvey has been a non-executive director on our Board of Directors and member of our audit committee.

Alexey Kalinin — Non-Executive Director

Mr. Alexey Vladimirovich Kalinin was born in 1959. He graduated from the Moscow Power Engineering Institute in 1982 with a degree in engineering and electrophysics (high voltage engineering). He was awarded a candidate of technical sciences in 1987. From 1996 to 1998, Mr. Kalinin occupied the position of managing director of CJSC Alfa Capital. From 1995 to 1999, he was President of the board of directors at OJSC AKRIKHIN Pharmaceuticals Co. From 1996 to 1998, Mr. Kalinin was member of the board of directors of the Borsk Glass Plant. From 1995 to 1999 and from 2006 to 2010, he was member of the board of directors of the Saratov Glass Plant. From 1998 to

1999, he served as Head of the Long-Term Investments Department in Alfabank. From 1999 to date, Mr. Kalinin has served as a partner, later as an co-managing partner and is currently a senior partner of the Moscow Representative Office of Baring Vostok Partners Limited (Cyprus). From 2003 to 2007, he was member of the board of directors of Samarenergo. From 2006 to the date of this prospectus, he has been Chairman of the board of directors of Volga Gas. Since 2010, Mr. Kalinin has been a non-executive director on our Board of Directors.

Martin Robert Cocker — Non-Executive Independent Director, Chairman of the Audit Committee

Mr. Martin Robert Cocker was born in 1959. He graduated from the University of Keele, England, in 1981 with a joint honours degree in mathematics and economics. From 1981 to 1992, he served as an auditor and later as an audit manager and senior audit manager at Ernst & Young (United Kingdom). From 1992 to 1995, he worked in the oil industry with Amerada Hess before returning to the audit profession in 1996 as a partner with Ernst & Young in Moscow Russia. Between 1998 and 2007, Mr. Cocker occupied various management positions, including the posts of audit director in Deloitte & Touche (United Kingdom), managing audit partner in KPMG Kazakhstan (Almaty, Kazakhstan), managing audit partner Central Asia in Deloitte & Touche (Almaty, Kazakhstan) and managing partner Northern Russia with Deloitte & Touche (St. Petersburg). From 2007 to the date of this prospectus, Mr. Cocker serves as managing director and co-owner of Bliss Developments (Portugal). Since 2010, Mr. Cocker has been a non-executive independent director on our Board of Directors and chairman of our audit committee.

Peter Harold Touzeau — Non-Executive Director

Mr. Peter Harold Touzeau was born in 1951. Following his education in Guernsey, Mr. Touzeau studied commercial horticulture at Oatlands College in Hertfordshire between 1970 and 1971. From 1990 to 1999, he occupied the position of Captive Insurance Client account manager in Sedgwick Management Services (Guernsey) Limited, before it was taken over by Marsh Management Services (Guernsey) Limited in 1999, where he worked until 2001. Since 2001, Mr. Touzeau has been Assistant Director, Client Director and currently holds a management position at Ipes (Guernsey) Limited (formerly International Private Equity Services Limited), a leading provider of fund administration services in Guernsey, Jersey, London and Luxembourg. From 2005 to date, Mr. Touzeau has acted as a director to the General Partners Boards for a number of Guernsey Close ended Private Equity funds providing funding for Buyout, Venture Capital, Mezzanine and Fund of Funds mainly in Asia, Central and Eastern Europe. He also serves as a director on the board of the Investment Advisor Baring Vostok Capital Partners Limited and the three Baring Vostok Private Equity Funds General Partners Boards investing in Russia. As a director to the Manager and General Partners boards to the Syntaxis Mezzanine funds investing in Eastern Europe, he also sits on the boards of a number of funds portfolio companies. Since 2001, Mr. Touzeau has also served as secretary and accountant to a company investing in one of these Russian funds, which is listed on the Channel Island Stock Exchange; in 2010, he became a member to its board of directors. Since 2008, Mr. Touzeau has been a non-executive director on our Board of Directors.

Anton Poriadine — Non-executive Independent Director

Mr. Anton Evgenievich Poriadine was born in 1969. He graduated from the Baltic State Technical University of St. Petersburg in 1992 with a degree in engineering and from William E. Simon Graduate School of Business Administration at the University of Rochester in 2001 with an MBA degree. From 1992 to 1994, he worked as Head of International Department at the Baltic State Technical University of St. Petersburg, and from 1994 to 1997, as deputy General Manager for international projects at St. Petersburg Foundation for Enterprise Development. From 1997 to 2005 he occupied various positions, including the posts of consultant and project manager at Barents International Markets B.V., associate at A.T. Kearney and project manager at Value Partners. From 2005 to 2007, Mr. Poriadine has served as project manager, and then senior manager at A.T. Kearney, where he occupies the position of principal and core member of European Strategy Practices as of the date of this prospectus. Since April 2011, Mr. Poriadine has been a non-executive independent director on our Board of Directors.

Powers of the Board of Directors

The Board of Directors is responsible for the general management of the Company. The Board of Directors organises and manages operations of the Company. Our articles of incorporation provide that the number of members of the Board of Directors shall not be subject to any maximum but shall not be less than one.

The members of the Board of Directors can be appointed by or removed from office by the Board of Directors or by the Company in general meeting.

The Board of Directors is responsible for promoting the success of the Company by directing and supervising the Company’s affairs. The Board of Directors shall:

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

For more details, see “*Description of Share Capital and Certain Requirements of Guernsey Law — Board of Directors*”.

SENIOR MANAGEMENT

The following table sets forth the name, age, position and first date of appointment of each of our senior managers (“**Senior Managers**”):

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>First Year Appointed</u>
Viacheslav Zarenkov	60	President of the Group	1987
Dmitri Zarenkov	38	First Vice-President of the Group	1995
Anton Evdokimov	47	Vice-President, CFO of the Group	1998
Dmitri Boulkhoukov	30	Head of Investments of the Group	2007
Alexander Shkuratov	33	Head of Strategy and Business Development of the Group	2007
Kirill Vyazovsky	35	Vice-President of the Group,	1996
Mikhail Ivanov	62	Vice-President of the Group,	1994
Irina Onischenko	46	General Director of TSUN	2001
Valentina Chulgaeva	56	Head of Economics and Planning Department of Management Company Etalon	1995
Gennady Scherbina	56	General Director of SSMO LenSpetsSMU	2007
Daniil Seledchik	36	General Director of Etalon-Invest (Moscow)	1997
Svetlana Vasilevskaya	51	Chief Accountant of Management Company Etalon	2006
Petr Mayorov	58	General Director of MFTC	2001
Pavel Golovachev	30	First Deputy Chief Accountant/Deputy CFO for IFRS Reporting of Management Company Etalon	2009

The business address of each of our Senior Managers is 2, Bogatyrsky Prospect, 197348 St. Petersburg, Russia.

Viacheslav Zarenkov — President of the Group

See “— *Board of Directors*” for a brief biography of Mr. Zarenkov.

Dmitri Zarenkov — First Vice-President of the Group

See “— *Board of Directors*” for a brief biography of Mr. Zarenkov.

Anton Evdokimov — Vice-President, CFO of the Group

See “— *Board of Directors*” for a brief biography of Mr. Evdokimov.

Dmitri Boulkhoukov — Head of Investments of the Group

See “— *Board of Directors*” for a brief biography of Mr. Boulkhoukov.

Alexander Shkuratov — Head of Strategy and Business Development of the Group

See “— Board of Directors” for a brief biography of Mr. Shkuratov.

Kirill Vyazovsky — Vice-President of the Group

Mr. Kirill Olegovich Vyazovsky was born in 1975. He graduated from the St. Petersburg State University in 1997 with a degree in law. He was awarded a candidate of juridical sciences in 2000. From 1996 to 1998, Mr. Vyazovsky was an in-house lawyer at SSMO LenSpetsSMU. From 1998 to 2000, he occupied a position of Head of Legal Department of SSMO LenSpetsSMU. From 2000 to 2001, Mr. Vyazovsky served as deputy General Director of Legal Affairs of SSMO LenSpetsSMU. Since 2001, he has been Head of the Legal Department of Management Company Etalon. Since 2007, Mr. Vyazovsky has been Vice-President of the Group.

Mikhail Ivanov — Vice-President of the Group

Mr. Mikhail Ivanovich Ivanov was born in 1948. He graduated from the Leningrad State University named after Zhdanov in 1977 with a degree in scientific communism. From 1977 to 1983, he worked as an assistant and assistant professor in scientific communism department of the Leningrad Polytechnical Institute and did his postgraduate studies. In 1983, he was awarded a candidate of philosophical sciences. From 1991 to 1994, he was Construction Director of LLP Electronstroy. From 1994 to 2001, Mr. Ivanov occupied various management positions, including the posts of Head of Investments Department of SSMO LenSpetsSMU and deputy Chief General Officer of SSMO LenSpetsSMU. From 2001 to 2007, Mr. Ivanov served as deputy General Director and since 2010, also as Head of Sales of Management Company Etalon. From 2007 to 2010, he also held the position of General Director of TSUN. Since 2007, Mr. Ivanov has been Vice-President of the Group.

Irina Onischenko — General Director of TSUN

Ms. Irina Vadimovna Onischenko was born in 1964. She graduated from the Leningrad Institute of Motion Picture Engineers in 1991 with a degree in engineering. From 1991 to 1994, she served as a secretary, accountant and Chief Accountant of LLP Unart. From 1994 to 1996, Ms. Onischenko was a real property sales manager in CJSC Advex Inc. From 1996 to 2001, she occupied various management positions, including the posts of General Director of LLC Central Real Estate Agency, deputy General Director of CJSC Adveks-Rosstro, Head of Investments Department at Management Company Etalon. From 2001 to 2003, Ms. Onischenko served as Director of Investments Service of SSMO LenSpetsSMU. From 2003 to 2010, she occupied the positions of Investments Service Director, Investments Department Director and Deputy General Director of TSUN. Since 2010, Ms. Onischenko has been General Director of TSUN.

Valentina Chulgaeva — Head of Economics and Planning Department of Management Company Etalon

Ms. Valentina Sergeevna Chulgaeva was born in 1954. She graduated from the Kalininsky Polytechnic Institute in 1977 with a degree in construction engineering, and the Military Technical Engineering University in 2010 with a degree in construction supervision. From 1977 to 1991, Ms. Chulgaeva occupied various positions including the posts of engineer, lead engineer and head of technical department in SU-336 Trust in No. 72 of Glavzapstroy. From 1992 to 1994, Ms. Chulgaeva served as lead engineer in OJSC Pozitron. From 1995 to 2003, Ms. Chulgaeva served as an executive director and Director of Economic Affairs of SSMO LenSpetsSMU. Since 2004, Ms. Chulgaeva has been Director of Economics and Head of Planning and Consulting Department of Management Company Etalon.

Gennady Scherbina — General Director of SSMO LenSpetsSMU

Mr. Gennady Phillipovich Scherbina was born in 1955. He graduated from the Balashov Air Force Academy in 1976 with a degree in piloting engineering. He was awarded a candidate of military sciences by the Naval Academy named after A.A. Grechko in 1990. He also graduated the St. Petersburg State University in 2009 with a degree in industrial and civil construction. From 2000 to 2007, Mr. Scherbina held various management positions, including the posts of deputy General Director and later General Director of LLC Visstus, and General Director of CJSC Generating Company Teplogarant. From 2010 to the date of this prospectus, he has served as an advisor to Vice-Governor of St. Petersburg. Since 2007, Mr. Scherbina has served as General Director of our subsidiary, SSMO LenSpetsSMU.

Daniil Seledchik — General Director of Etalon-Invest (Moscow)

Mr. Daniil Mikhailovich Seledchik was born in 1974. He graduated from the St. Petersburg State University in 1997 with a degree in law. He was awarded a candidate of juridical sciences in 2005. From 1997 to 2003, Mr. Seledchik

served as Department Head in SSMO LenSpetsSMU. He also occupied the position of Legal Director of Management Company Etalon from 2003 to 2010. Since 2010, Mr. Seledchik has been General Director of Etalon Invest (Moscow).

Svetlana Vasilevskaya — Chief Accountant of Management Company Etalon

Ms. Svetlana Petrovna Vasilevskaya was born in 1960. She graduated from the North West Extramural Polytechnic Institute in 1984 with a degree in construction technology, and from the St. Petersburg State University in 2000 with a degree in economics and accounting. From 1991 to 2000, she served as Chief Accountant at Youth Association Sovremennik, at the Collective Enterprise Ecopolis-project and at CJSC Sosna Engineering. From 2000 to 2003, Ms. Vasilevskaya held the position of deputy Chief Accountant, and from 2004 to 2005, of Chief Accountant at CJSC Eurosib Spb Transport Systems. Since 2006, Ms. Vasilevskaya has been Chief Accountant of Management Company Etalon.

Petr Mayorov — General Director of MFTC

Mr. Petr Grigorievich Mayorov was born in 1952. He graduated from the Kazan Construction Engineering Institute in 1975 with a degree in construction engineering. From 1991 to 1992, he served as Marketing Director at Minor State Enterprise Gernika. From 1992 to 2001, Mr. Mayorov held various management positions, including the posts of deputy Director for Capital Construction of the Russobalt Concern and deputy General Director of Construction and Financing Corporation Petrograd. Since 2001, he has been General Director of MFTC.

Pavel Golovachev — First Deputy Chief Accountant/Deputy Chief Financial Director (CFO) for IFRS Reporting of Management Company Etalon

Mr. Pavel Yurievich Golovachev was born in 1981. He graduated from the St. Petersburg State University of Economics and Finance in 2003 with a degree in international business. From 2003 to 2007, he served as a consultant and auditor, and later as a senior consultant and auditor at CJSC PricewaterhouseCoopers Audit. In 2007, he also held the position of lead specialist of the International Accounting and Budgeting Department of LLC Constructive Bureau. From 2007 to 2008, Mr. Golovachev worked as deputy Finance Director at CJSC StroyMontazh. In 2009, he served as Head of IFRS Department of LLC TT-VKO. Since December 2009, Mr. Golovachev has been First Deputy Chief Accountant/Deputy Chief Financial Director (CFO) for IFRS Reporting of Management Company Etalon.

INTERESTS OF MEMBERS OF OUR BOARD OF DIRECTORS AND SENIOR MANAGERS

Certain members of our Board of Directors and our Senior Managers have beneficial ownership interests in our Ordinary Shares. See “*Principal and Selling Shareholders*”. None of the members of our Board of Directors or our Senior Managers holds options with respect to our Ordinary Shares. Various means, by which our directors and senior management are incentivised, including a potential share option scheme or other share based incentive scheme, are being considered.

The members of the Board of Directors, the Senior Managers of the Group and certain direct or indirect beneficial owners of the Company have the following potential conflicts of interest:

- Mr. Viacheslav Zarenkov and Mr. Dmitri Zarenkov are father and son. None of the other members of our Board of Directors or our Senior Managers are related to one another for the purposes of the Prospectus Rules.
- The economic interests through shareholdings in the Company of Messrs. Viacheslav Zarenkov, Dmitri Zarenkov, Mikhail Ivanov, Kirill Vyazovsky, Anton Evdokimov, Dmitri Boulkhoukov, Alexander Shkuratov, Michael John Calvey, Alexei Kalinin and Peter Harold Touzeau (as indicated in the table below), may give rise to a conflict of interest between their duties owed to us and their private interests in the Ordinary Shares of the Company. For example, it could cause them to pursue short term gains in respect of those private interests.
- Mr. Touzeau is a director of several Baring Vostok entities. In addition, both Messrs. Kalinin and Calvey are senior partners of Baring Vostok Capital Partners Limited, while Mr. Calvey is also a member of the investment committee to the general partner of the Baring Vostok Funds. The Baring Vostok Funds are the beneficial owners of the Ordinary Shares of the Company held by Dehus Dolmen Nominees Limited. See “*Principal and Selling Shareholders-Selling Shareholders*”. By virtue of Messrs. Touzeau, Kalinin and Calvey holding positions within certain entities within or affiliated with Baring Vostok entities, a potential conflict of interest may arise between these directors’ duties owed to the Company and their duties owed to such entities.

Other than the potential conflicts of interest described in the three bullet-points immediately above, we are not aware of any other potential conflicts of interest between any duties owed by members of our Board of Directors or our Senior Managers to us and their private interests and/or other duties.

As at the date of this prospectus, the following members of our Board of Directors and our Senior Managers and executive officers owned Ordinary Shares in the Company in the following percentages:

<u>Name of Directors and Senior Managers</u>	<u>Share percentage</u>	
	<u>Number of Ordinary Shares beneficially held</u>	<u>Percentage of Ordinary Shares held</u>
Viacheslav Zarenkov ⁽¹⁾	109,891,400	49.2
Dmitri Zarenkov ⁽²⁾	31,407,800	14.1
Anton Evdokimov ⁽³⁾	12,854,000	5.8
Kirill Vyazovsky ⁽⁴⁾	12,960,400	5.8
Mikhail Ivanov ⁽⁵⁾	10,749,400	4.8
Dmitri Boulkhoukov ⁽⁶⁾	1,132,700	0.5
Alexander Shkuratov ⁽⁷⁾	1,132,700	0.5
Michael John Calvey ⁽⁸⁾	609,588	0.3
Alexei Kalinin ⁽⁹⁾	488,970	0.2
Peter Harold Touzeau ⁽¹⁰⁾	1,276	*(11)

- (1) Shareholdings of Mr. V. Zarenkov and persons related to him are beneficially owned through Strata Investments Limited.
(2) Shareholdings of Mr. D. Zarenkov are beneficially owned through Tract Investments Limited.
(3) Shareholdings of Mr. A. Evdokimov and persons related to him are beneficially owned through Arpent Investments Limited.
(4) Shareholdings of Mr. K. Vyazovsky are beneficially owned through Caravan Investments Limited.
(5) Shareholdings of Mr. M. Ivanov are beneficially owned through Butte Investments Limited.
(6) Shareholdings of Mr. D. Boulkhoukov are beneficially owned through Consent Investments Limited.
(7) Shareholdings of Mr. A. Shkuratov are beneficially owned through Consent Investments Limited.
(8) Shareholdings of persons related to Mr. M. Calvey are beneficially owned through the Baring Vostok Funds.
(9) Shareholdings of Mr. A. Kalinin are beneficially owned through certain of the Baring Vostok Funds.
(10) Shareholdings of Mr. Touzeau are beneficially owned through certain of the Baring Vostok Funds.
(11) Holding is less than 0.1%.

See “*Principal and Selling Shareholders*” for more details.

CORPORATE GOVERNANCE

There are no corporate governance codes applicable to the Company under Guernsey law.

Audit Committee

The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Group’s financial statements, including its annual and interim financial statements, and the effectiveness of the Group’s internal controls and risk management systems; (ii) auditors’ reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises, monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Group of financial information and a number of other audit-related issues. The audit committee was established in 2010 and currently consists of Martin Robert Cocker, Michael John Calvey, Anton Evdokimov and Alexander Shkuratov. The audit committee is chaired by Martin Robert Cocker.

Remuneration Committee

The remuneration committee advises the Board of Directors on the remuneration of the Senior Managers and executive officers, terms and conditions of employment agreements with the Senior Managers. We adopted a decision on the establishment of the remuneration committee in November 2010. As of the date of this prospectus, we were in the process of staffing the committee.

Nomination Committee

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

Board of Directors. In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board of Directors given the Group's stage of development and makes recommendations to the Group's Board of Directors as to any changes. The committee also considers future appointments in respect of the composition of the Board of Directors and makes recommendations regarding the membership of the audit and remuneration committees. We adopted a decision on the establishment of the nomination committee in November 2010. As of the date of this prospectus, we were in the process of staffing the committee.

COMPENSATION

The aggregate amount of remuneration paid by us to members of our Board of Directors and our Senior Managers as a group for services in all capacities provided to us during the year ended 31 December 2010 was approximately RUB 258.8 million in salary and bonuses.

Letter of Appointment of Mr. Martin Robert Cocker

We have appointed Mr. Martin Robert Cocker, our non-executive Director and Chairman of our audit committee, by a letter of appointment dated 12 November 2010. Pursuant to the terms of the appointment, Mr. Cocker is entitled to remuneration in the total amount of USD 80,000 *per annum*, comprising USD 60,000 for his services as a member of our Board of Directors and USD 20,000 for his services as the Chairman of our audit committee, which is subject to an annual review at our discretion and will benefit from any insurance we will maintain for our Directors and officers during the term of the appointment. Mr. Cocker is also entitled to reimbursement of his expenses that were properly and reasonably incurred in the course of performance of his duties. The letter of appointment does not provide for any pension, retirement or other similar benefits to Mr. Cocker. During the term of the appointment, Mr. Cocker may not, without prior written consent of our Board of Directors, take up any office or employment with or have any interest in a firm or a company, which is or may be in direct or indirect competition with us.

The appointment may be terminated either by us or Mr. Cocker through giving a one-month prior notice to the other party. Mr. Cocker is not entitled to any severance payments except for the payment of remuneration accrued to the date of termination of the appointment and compensation of any expenses properly incurred prior to that date.

Letter of Appointment of Mr. Anton Poriadine

We have appointed Mr. Anton Poriadine, our non-executive Director, by a letter of appointment dated 24 March 2011. Pursuant to the terms of the appointment, Mr. Poriadine is entitled to remuneration in the amount of USD 60,000 *per annum* for his services as a member of our Board of Directors, which is subject to an annual review at our discretion and will benefit from any insurance we will maintain for our Directors and officers during the term of the appointment. Mr. Poriadine is also entitled to reimbursement of his expenses that were properly and reasonably incurred in the course of performance of his duties. The letter of appointment does not provide for any pension, retirement or other similar benefits. During the term of the appointment, Mr. Poriadine may not, without the prior written consent of our Board of Directors, take up any office or employment with or have any interest in a firm or a company, which is or may be in direct or indirect competition with us.

The appointment may be terminated by either the Company or Mr. Poriadine giving one-month's prior notice to the other party. Mr. Poriadine is not entitled to any severance payments except for the payment of remuneration accrued to the date of termination of the appointment and compensation of any expenses properly incurred prior to that date.

D&O and POSI Liability Insurance

We also intend to enter into the directors' and officers' ("**D&O**") insurance policy and the Public Offering of Securities Insurance ("**POSI**") policy in connection with this Offering.

EMPLOYMENT CONTRACTS WITH SENIOR MANAGERS

Each of our Senior Managers is entitled to the statutory termination benefits required by Russian law, which in effect amounts to three months' salary upon termination (except for the General Director of TSUN who is entitled to one month's salary if we early terminate his appointment without any wrongful acts from his side). If the person concerned has been dismissed on any of the grounds set out below, no termination benefits are payable.

We do not provide pension, retirement or similar benefits to our Senior Managers.

Each of our Senior Managers may resign by giving us two weeks' written notice, except for the General Director of TSUN who must give one month's notice. We may terminate the employment of any of these persons with immediate effect and without notice if the person concerned:

- commits a serious or persistent breach of his or her duties;
- is guilty of any gross misconduct connected with the handling of money or valuables;
- is subject to any criminal sanction or restriction, as a result of which he or she can no longer perform their duties;
- becomes disqualified or prohibited by a regulatory authority on administrative grounds from performing their duties;
- divulges the Group's commercial secret of which he became aware due to performance of his employment duties;
- becomes unable to perform their duties as evidenced by a valid medical certificate;
- performs their duties on the basis of a special authorisation from a governmental authority which is terminated, suspended or revoked; or
- becomes incapable of performing their duties in any other circumstances as provided for under Russian law.

In addition to the grounds for dismissal set out above, we may also terminate the employment of the General Director of TSUN in circumstances where he:

- takes an unreasoned decision which results in a loss to the Company; or
- fails to perform the duties provided for in his contract of employment, TSUN's charter, other applicable agreements, legislation or by-laws or performs those duties inadequately.

LITIGATION STATEMENT ABOUT DIRECTORS AND OFFICERS

At the date of this prospectus, none of the members of our Board of Directors or our Senior Managers for at least the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company, or a partner in any partnership, at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

The following is a summary of our transactions with related parties for the years ended 31 December 2008, 2009 and 2010. For further details, see Note 30 to the 2009/2008 Consolidated Financial Statements and 2010/2009 Consolidated Financial Statements.

GENERAL MATTERS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, as defined in IAS 24 “*Related Party Disclosures*”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

We are, and have been, a party to various agreements and other arrangements with certain related parties and interested parties, the most significant of which are described below. See “*Risk Factors — Risks Relating to Our Business — We have engaged in transactions with related parties that may present conflicts of interest; the terms of such transactions may be less favourable to us than terms that could be obtained in arm’s-length transactions*”.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended 31 December 2008, 2009 and 2010 consisted of the following:

	For the year ended 31 December		
	2008	2009	2010
	mln RUB		
Transactions with management and close family members			
Salaries and bonuses	127	109	157
Benefits in kind	—	2	—
Sale of apartments and premises	17	60	72
Transactions with other related parties			
<i>Revenue:</i>			
Other related parties	71	79	41
Equity accounted investees	3	3	38
Total	74	82	79
<i>Expenses:</i>			
Other related parties	26	43	34
Equity accounted investees	227	83	21
Total	253	126	55
<i>Loans given:</i>			
Equity accounted investees	19	262	10
Other related parties	1	6	6
Total	20	268	16

Transactions with LLC Severnaya Vysota I K (currently, UM Etalon)

In 2008 and 2009, we entered into several transactions with LLC Severnaya Vysota I K (currently, UM Etalon), which was an equity accounted investee, holding construction cranes under finance lease contracts. On 18 December 2009, we obtained control of LLC Severnaya Vysota I K by acquiring 70% of the shares and voting interest in the company, increasing our interest from 30% to 100%. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations-Key Factors Affecting our Results of Operations-Disposals and Acquisitions*”.

For the years ended 31 December 2008 and 2009, we provided a number of loans to LLC Severnaya Vysota I K in the total amount of RUB 19 million and RUB 262 million with interest rates varying from 0% to 17% *per annum*. Prior to our acquisition of LLC Severnaya Vysota I K, we wrote off certain loans we have made to this entity. Upon its acquisition, the remainder of these loans were eliminated on consolidation. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Cash Flow-Year ended 31 December 2009 compared to the year ended 31 December 2008*”.

For the years ended 31 December 2008 and 2009, we incurred expenses in the amount of RUB 227 million and RUB 83 million, respectively, which mainly consisted of cost of services of tower cranes purchased by the Group from LLC Severnaya Vysota I K.

Service Provided to Related Parties

As of 31 December 2008, 2009 and 2010, we held a non-controlling participation interest in several legal entities that owned boiler houses, which provided central heating services for the buildings constructed by the Group. In 2008, 2009 and 2010, we provided various services to these legal entities, such as repair services and lease of premises. In connection with these services, we recorded revenue in the amount of RUB 69,449 thousand, RUB 35,397 thousand and RUB 35,093 thousand for the years ended 31 December 2008, 2009 and 2010, respectively.

In 2009, we provided maintenance services to certain operators of parking spaces initially commissioned by the Group in the form of cooperatives. In connection with these services, we recorded revenue in the amount of RUB 24,495 thousand for the year ended 31 December 2009.

In 2010, we provided maintenance services to two non-commercial partnerships, NP Delovoy Centre and NP Na Reke Smolenke, in which we held a non-controlling participation interest. For the year ended 31 December 2010, we recorded revenue in the total amount of RUB 30,009 thousand.

Sale of Shares by Mr. Viacheslav Zarenkov

In May 2010, Mr. Viacheslav Zarenkov, sold his 20% participation interest in our subsidiary CJSC ZSM Etalon to our subsidiary SSMO LenSpetsSMU for a total consideration of RUB 91 million. At the time of the transaction, Mr. Zarenkov indirectly controlled 49.2% of our Ordinary Shares and was also Chairman of our Board of Directors and President of the Group.

MATERIAL CONTRACTS

The following contracts are, or may be, material or have been entered into at any time by any member of our Group and contain provisions under which any member of our Group has an obligation or entitlement which is, or may be, material to our Group as at the date of this prospectus.

MAJOR CREDIT AGREEMENTS

For a description of the major credit agreements, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Major Credit Agreements*”.

OTHER AGREEMENTS

Lease agreement relating to the Technopark development, St. Petersburg

In September 2007, our subsidiary LSS-Stroy, assumed all rights and obligations under a land lease agreement with investment conditions, which was granted by the St. Petersburg Government to non-commercial partnership “RUSSOFT” in November 2006.

The agreement (as amended) provides for our undertaking to develop the “Technopark” office building, with a total area not exceeding 50,980 square metres, located at 1 Kolomyazhskiy Prospect, St. Petersburg. The building is situated on a land plot of 11,349 square metres. Under the agreement, we undertook to make rental payments and payments for the purposes of the development of city infrastructure to the St. Petersburg Government for/totalling approximately RUB 216 million. Construction was originally scheduled to complete by April 2010. By an additional agreement, entered into in March 2009, the term for construction was prolonged until July 2011, and as of the date of execution of this additional agreement, the total amount of outstanding payments and interest was approximately RUB 110 million.

The lease agreement (as amended), which was entered into for the period of construction, expires in July 2011.

Upon the performance of our development obligations, the land plot will be leased to us for a term of 49 years.

The St. Petersburg Government may terminate the agreement through judicial proceedings if we breach the main obligations related to the development of the “Technopark” office building, or fail to pay rent and interest within four months of the due date. The agreement can also be terminated by mutual consent of both parties.

Investment agreement related to the Emerald Hills development, the Moscow region

In June 2008, we purchased 100% of the share capital of Zatonskoye. Zatonskoye had entered into an investment agreement with the Ministry of Construction Complex of the Moscow region in 2004. Under the investment agreement (as amended), we undertake to finance and develop a residential complex with certain objects of social infrastructure and a multifunctional sports centre. The complex has a total area of approximately 560 thousand square metres (both residential and non-residential area) and is located near the village of Anino in the Krasnogorsk district of the Moscow region. Upon completion, the administration of the Moscow region will obtain ownership of 3% of the aggregate residential area of the complex and 100% of the social objects, including schools and kindergartens. We will retain ownership of 97% of the aggregate residential area and 100% of the aggregate non-residential area of the complex, except for the aforementioned social objects.

We hold lease rights under agreements with the authorities of the Moscow region for the period of design and construction. We also assumed an obligation of resettlement and compensation of the residents of those buildings subject to demolition. Additionally, we are obligated to participate in the construction and reconstruction of utility networks and buildings.

According to the agreement, the investment object is to be completed and put into operation in six phases between 2011 and 2020. The lease agreements were concluded for the term of 49 years from the registration of the respective agreements. We make rental payments to the administration of the Moscow region in the amount calculated for each land plot.

The investment agreement may be terminated by mutual consent of the parties pursuant to Russian legislation, upon full performance of each party’s obligations or through court proceedings. In case of rescission of the investment agreement, the administration of the Moscow region is entitled to obtain the pre-emptive right to purchase the resultant construction works from us, subject to a reimbursement of expenses incurred.

The leases may be terminated by the administration of the Moscow region if we use the land plots in violation their designated purpose, fail to pay rent or otherwise breach the lease agreements, as well as on other grounds in accordance with Russian legislation and a court decision.

Agreement on realisation of investment project and lease agreements relating to the Etalon-City development, Moscow

In September 2010, we purchased a 95% participatory interest in Daikar. Daikar had entered into an agreement upon the realisation of an investment project with FGUP Radiochastotniy Centre Federalnogo Centaralnogo Okruga (“**FGUP RC**”), a state enterprise, in May 2004.

The agreement (as amended) provides for the development of a residential complex with certain objects of social infrastructure and a training centre with a total area not exceeding 249,150 square metres (including a residential area of approximately 149,000 square metres). The complex is located at 13 Starokrymskaya street, Moscow. Daikar undertook to finance the development in its entirety, including all costs of resettlement of residents, in exchange for 93.15% of the total residential area and 100% of non-residential total area except for the social infrastructure objects and the training centre, which will be transferred to FGUP RC.

FGUP RC held lease rights to the underlying land plots. Subsequently, lease agreements with FGUP RC were terminated and in August 2010, the short-term land lease agreements with respect to these land plots were concluded between Daikar and the Moscow Government. We are obligated to pay the Moscow Government quarterly rent in a total amount of approximately RUB 422,000.

Both, the agreement on realisation of investment project (as amended) and the lease agreements, expire in December 2014.

The agreement on realisation of the investment project may be terminated by mutual consent of the pursuant parties, or through court proceedings. Should the termination occur due to our fault, we will be obliged to reimburse FGUP RC against the incurred costs.

The leases may be terminated by the Moscow Government should we use the land plots in violation of their designated purpose, fail to pay rent, or otherwise breach the lease agreements.

Agreement on investing in construction with LLC Pioneer-Invest

In November 2010, Daikar entered into an agreement on investing in construction with LLC Pioneer-Invest (a party to an investment contract with Moscow authorities), which provides for joint participation in construction of multi-storey residential building with built-in commercial premises located at 672, Admirala Lazareva street, Moscow. Under the agreement (as amended), we undertake to partially finance the construction in amount of approximately RUB 230 million in exchange for the apartments in the constructed building. The construction is expected to be completed in December 2011. We entered into this agreement in order to re-house the former tenants of buildings on the Etalon-City project land-plot, as required by the agreement on realisation of investment project with FGUP RC. We believe that LLC Pioneer-Invest will obtain an operation permit for the building in 2012, and, within the period not exceeding a year, we will be able to successfully re-house all relevant tenants.

LLC Pioneer-Invest may terminate the agreement on investing in construction should we delay any payment due from us under the agreement by more than 10 days. The agreement also may be terminated by the parties on the grounds set forth by the Russian legislation.

Construction contracts with LLC Budostal-3 Export related to the Jubilee Estate development

In July 2010, our subsidiary, SSMO LenSpetsSMU entered into a general construction agreement with LLC Budostal-3 Export, as a construction manager. The agreement provides for the construction of one of the buildings with a parking area and amenities related to our Jubilee Estate project. The contract price is approximately EUR 44 million. Later in July 2010, our subsidiary, LenSpetsSMU-Rekonstruktsiya entered into a construction agreement with LLC Budostal-3 Export, as a subcontractor. The contract price is approximately EUR 10 million. The project is expected to be completed by August 2012. The construction of the project involves finance received from Alfabank and described in more detail in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Major Credit Agreements*”.

LLC Budostal-3 Export may terminate the construction agreement should we delay commencing construction by more than 60 days or should the self-regulated organisation in which we participate revoke our approval certificate. We can terminate the agreement early if LLC Budostal-3 Export suspends construction for more than 60 days or in the event of its insolvency or systematic delays of payments under the contract for more than 45 days.

LLC Budostal-3 Export may terminate the construction agreement should we delay the construction for more than 60 days or should the self-regulated organisation in which we participate revoke our approval certificate. We can terminate the agreement early if LLC Budostal-3 Export suspends the construction for more than 60 days or in case of its insolvency or systematic delays of payments under the contract for more than 45 days.

Preliminary sale and purchase agreements relating to the Uralskaya street-2 development

In December 2010, our subsidiary SSMO LenSpetsSMU entered into a preliminary sale and purchase agreement with LLC Masterkom in relation to acquisition of the ownership rights to a land plot with a total site area of approximately 0.7 hectares and a non-residential building located thereon. Simultaneously, SSMO LenSpetsSMU entered into a preliminary sale and purchase agreement with several private individuals to acquire ownership rights to six land plots with a total site area of approximately 5.8 hectares and non-residential buildings located thereon. In accordance with the terms of these two preliminary sale and purchase agreements, we expect to enter into the final sale and purchase agreements in relation to abovementioned ownership rights by 1 September 2011 in case of the agreements with LLC Masterkom and 7 September 2011, in case of the agreements with private individuals. The total purchase price that will be due from us under the principal agreements is USD 30 million. We should note, however, that the acquisition of the land plots and non-residential buildings from private individuals is subject to them procuring proper formation of the boundaries of the land plots and registration of their ownership rights to these assets with the Directorate of the Federal Registration Service for St. Petersburg and the Leningrad region, the performance of which is secured by return of earnest money, which, in turn, is secured by a mortgage of the non-residential buildings located on the land plots in question. The mortgage is provided by a third party, who currently holds ownership rights to these buildings.

According to the preliminary agreements, each party may terminate the respective preliminary agreement should its counterparty avoid execution of principal sale and purchase agreement. Under the agreement with private individuals, we also may terminate the agreement in case of their failure to register ownership rights to the property in question by 20 August 2011.

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this prospectus, our share capital was GBP 11,176.47 consisting of 223,529,400 Ordinary Shares with a nominal value of GBP 0.00005 each, all of which have been issued on a fully paid-up basis.

The following section sets forth our shareholders who own at least 1% of the Ordinary Shares as of the date of this prospectus, as they appear on our register of shareholders.

Name of Shareholder	Immediately before the Offering		Number of Ordinary Shares in the form of GDRs sold in the Offering ⁽¹⁾	Immediately after the Offering		Immediately after the Offering (assuming the Over-allotment Option is exercised in full)	
	Number of Ordinary Shares	Per cent of Ordinary Shares		Number of Ordinary Shares ⁽²⁾	Per cent of Ordinary Shares	Number of Ordinary Shares ⁽²⁾	Per cent of Ordinary Shares
Strata Investments Limited ⁽³⁾	109,891,400	49.2	1,464,286	108,427,114	36.8	96,105,686	32.6
Tract Investments Limited ⁽⁴⁾	31,407,800	14.1	714,286	30,693,514	10.4	30,693,514	10.4
Dehus Dolmen Nominees Limited ⁽⁵⁾	34,672,200	15.5	1,785,714	32,886,486	11.1	32,886,486	11.1
Caravan Investments Limited ⁽⁶⁾	12,960,400	5.8	500,000	12,460,400	4.2	12,460,400	4.2
Arpent Investments Limited ⁽⁷⁾	12,854,000	5.8	500,000	12,354,000	4.2	12,354,000	4.2
Butte Investments Limited ⁽⁸⁾	10,749,400	4.8	500,000	10,249,400	3.5	10,249,400	3.5
Consent Investments Limited ⁽⁹⁾	2,265,400	1.0	714,286	1,551,114	0.5	1,551,114	0.5
BNY (Nominees) Limited ⁽¹⁰⁾	<u>8,728,800</u>	<u>3.9</u>	<u>n/a</u>	<u>4,000,000</u>	<u>1.4</u>	<u>4,000,000</u>	<u>1.4</u>

- (1) Subject to an Over-allotment Option in respect of an additional 12,321,428 Ordinary Shares in the form of GDRs. See “*Subscription and Sale*”.
- (2) Some or all of which may be represented by GDRs as a result of the deposit of such Ordinary Shares with the Depository on or prior to the Closing Date.
- (3) The Ordinary Shares held by Strata Investments Limited are beneficially owned by Viacheslav Zarenkov, the Chairman of the Board of Directors of the Company, and his wife, Galina Zarenkova.
- (4) The Ordinary Shares held by Tract Investments Limited are beneficially owned by Dmitri Zarenkov, a member of the Board of Directors of the Company.
- (5) The Ordinary Shares held by Dehus Dolmen Nominees Limited are beneficially owned by the Baring Vostok Funds. Baring Vostok acts as the investment adviser to the general partner of the Baring Vostok Funds.
- (6) The Ordinary Shares held by Caravan Investments Limited are beneficially owned by Kirill Vyazovsky, a Senior Manager of the Company.
- (7) The Ordinary Shares held by Arpent Investments Limited are beneficially owned by Anton Evdokimov, a member of the Board of Directors of the Company, and persons related to him.
- (8) The Ordinary Shares held by Butte Investments Limited are beneficially owned by Mikhail Ivanov, a Senior Manager of the Company.
- (9) The Ordinary Shares held by Consent Investments Limited are beneficially owned by Dmitri Boulkhovkov and Alexander Shkuratov, members of the Board of Directors and Senior Managers of the Company.
- (10) The Ordinary Shares are held by BNY (Nominees) Limited as custodian for The Bank of New York Mellon, the depository for the Company’s unlisted global depository facility. The Company understands that, immediately before the Offering, 4,728,800 of these Ordinary Shares (or 2.1% of the Company’s share capital) were beneficially owned by Nagelfar Trade & Invest Limited (with the ultimate beneficial owner being Gazprombank Asset Management) and the remaining 4,000,000 Ordinary Shares (or 1.8% of the Company’s share capital) were owned by Mackenzie Financial Corporation (for and on behalf of the Mackenzie Cundill Recovery Fund). Nagelfar Trade & Invest Limited is participating as a Selling Shareholder in the Offering. Immediately after the offering, Nagelfar Trade & Invest Limited will beneficially own 193,086 Ordinary Shares in the form of GDRs (or 0.1% of the Company’s share capital). See “— *Selling Shareholders*.”

None of our shareholders has voting rights different from any other holders of our Ordinary Shares. We are not aware of any arrangements that may result in a change of control.

SELLING SHAREHOLDERS

The following table sets out the names and business addresses of the shareholders who will be selling Ordinary Shares in the form of GDRs in the Offering.

<u>Name of Selling Shareholder</u>	<u>Business Address</u>	<u>Total Ordinary Shares Offered</u>
Strata Investments Limited ⁽¹⁾	Trust Offices, 197 Main Street, P.O. Box 3540, Road Town, Tortola, British Virgin Islands	1,464,286
Tract Investments Limited ⁽²⁾	Trust Offices, 197 Main Street, P.O. Box 3540, Road Town, Tortola, British Virgin Islands	714,286
Dehus Dolmen Nominees Limited ⁽³⁾	1 Royal Plaza, Royal Avenue, St. Peter Port, Guernsey GY1 2HL	1,785,714
Caravan Investments Limited ⁽⁴⁾	Trident Chambers, Road Town, Tortola, British Virgin Islands	500,000
Arpent Investments Limited ⁽⁵⁾	Nemours Chambers, Road Town, Tortola, British Virgin Islands	500,000
Butte Investments Limited ⁽⁶⁾	Trident Chambers, Road Town, Tortola, British Virgin Islands	500,000
Nagelfar Trade & Invest Limited ⁽⁷⁾	Trident Chambers, Road Town P.O. Box 146 Tortola, British Virgin Islands	4,535,714
Consent Investments Limited ⁽⁸⁾	Trust Offices, 197 Main Street, Road Town, Tortola, British Virgin Islands	714,286

- (1) The Ordinary Shares held by Strata Investments Limited are beneficially owned by Viacheslav Zarenkov, the Chairman of the Board of Directors of the Company, and his wife, Galina Zarenkova. Strata Investments Limited has granted the Stabilising Manager, on behalf of the Underwriters, an Over-allotment Option to acquire up to an additional 12,321,428 Ordinary Shares in the form of GDRs. See “*Subscription and Sale*”.
- (2) The Ordinary Shares held by Tract Investments Limited are beneficially owned by Dmitri Zarenkov, a member of the Board of Directors of the Company.
- (3) The Ordinary Shares held by Dehus Dolmen Nominees Limited are beneficially owned by the Baring Vostok Funds. Baring Vostok acts as the investment adviser to the general partner of the Baring Vostok Funds.
- (4) The Ordinary Shares held by Caravan Investments Limited are beneficially owned by Kirill Vyazovsky, a Senior Manager of the Company.
- (5) The Ordinary Shares held by Arpent Investments Limited are beneficially owned by Anton Evdokimov, a member of the Board of Directors of the Company, and persons related to him.
- (6) The Ordinary Shares held by Butte Investments Limited are beneficially owned by Mikhail Ivanov, a Senior Manager of the Company.
- (7) The Company understands that the Ordinary Shares beneficially owned by Nagelfar Trade & Invest Limited are ultimately beneficially owned by Gazprombank Asset Management.
- (8) The Ordinary Shares held by Consent Investments Limited are beneficially owned by Dmitri Boulkhoukov and Alexander Shkuratov, members of the Board of Directors and Senior Managers of the Company.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF GUERNSEY LAW

We describe below Ordinary Shares, the material provisions of our memorandum and articles of incorporation in effect on the date of this prospectus and certain requirements of Guernsey law. This description, however, is not complete and is qualified in its entirety by reference to our memorandum and articles of incorporation and any applicable Guernsey law. References in this section to “we,” “us” and “our” refer to the Company only.

Formation and Duration

We are a Guernsey limited company that was incorporated in Guernsey under The Companies (Guernsey) Law, 1994, as amended, with registration number 48002 on 8 November 2007. We will continue as a limited company unless we are dissolved in accordance with our articles of incorporation or Guernsey law.

The GDRs will be issued pursuant to the Deposit Agreement between us and The Bank of New York Mellon, as depositary, and will represent ownership interests in the Ordinary Shares the Depositary receives and holds under the Deposit Agreement. The Depositary under the Deposit Agreement (or its Custodian or nominee) will be considered to be the sole record holder of any Ordinary Shares that are deposited under the Deposit Agreement and will be the only person that will be permitted to exercise any rights with respect to such Ordinary Shares or to receive reports as the holder of such Ordinary Shares. Accordingly, for the purposes of this description, references to shareholders generally do not include holders of GDRs, although such references do refer to the Depositary (or its Custodian or nominee) as the record holder of Ordinary Shares deposited under the Deposit Agreement. For a description of the rights of holders of GDRs under the Deposit Agreement, including procedures that GDR holders will be required to follow to instruct the Depositary to take actions with respect to Ordinary Shares deposited thereunder, see “*Terms and Conditions of the Global Depositary Receipts.*”

Description of Share Capital

Our share capital is divided into Ordinary Shares, each with a nominal value of GBP 0.00005, and the amount of the aggregate nominal value of all such shares constitutes our share capital. The Ordinary Shares are all in registered form and freely transferable subject to the provisions of the Company’s articles of incorporation. Absent specific contractual undertakings by shareholders, our Ordinary Shares may be sold by their holders to any third parties without triggering any rights of first refusal or requiring any approvals on the part of other shareholders. As of the date of this prospectus, we have 223,529,400 fully paid, issued and outstanding Ordinary Shares.

History of share capital

Before share split

On incorporation, our authorised share capital was GBP 10,000 divided into 1,000,000 Ordinary Shares of GBP 0.01 each. The issued share capital was GBP 0.02 comprising two subscriber shares.

On 20 November 2007, 499,998 Ordinary Shares were issued for an aggregate amount of GBP 4,998.

On 29 February 2008, pursuant to a written resolution of our shareholders, the authorised share capital was increased to GBP 11,176.47 divided into 1,117,647 Ordinary Shares of GBP 0.01 each.

On 29 February 2008, a further 500,000 Ordinary Shares were issued for an aggregate amount of GBP 5,000.

On 7 March 2008, a further 117,647 Ordinary Shares were issued for an aggregate amount of GBP 1,176.47.

Share split

With effect from 20 March 2011, pursuant to an ordinary resolution, each of our existing Ordinary Shares of GBP 0.01 was sub-divided into 200 Ordinary Shares of GBP 0.00005 each.

After share split

Pursuant to a special resolution dated 4 April 2011, the Company no longer has an authorised share capital.

Following Admission, there will be 294,957,971 Ordinary Shares in an aggregate amount of GBP 14,747.90.

Memorandum and Articles of Incorporation

The Company’s objects are unrestricted. Pursuant to The Companies (Guernsey) Law, 2008, as amended (the “**Guernsey Companies Law**”), unless a company’s memorandum specifically limits its objects, its objects are unlimited. The memorandum of incorporation is available for inspection at the Company’s registered office.

The articles of incorporation adopted pursuant to a special resolution dated 4 April 2011 (the “**Articles**”), contain provisions relating to the following:

Voting Rights

Subject to any rights or restrictions attached to any shares and the provisions of the Articles, on a poll every shareholder present in person or by proxy shall have one vote for every share of which he is a holder.

In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members in respect of the relevant share.

On a poll, votes may be given either personally or by proxy and a shareholder entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Variation of Rights

Whenever the capital of the Company is divided into different classes of shares the rights attached to any class of shares may (unless otherwise provided by the terms of issue) be varied or abrogated with the consent in writing of the holders of a majority of the issued shares of the class or with the sanction of an ordinary resolution passed at a separate meeting of the holders of such shares. The necessary quorum shall be two persons holding or representing by proxy at least one third of the voting rights of the class provided that if any such meeting is adjourned for lack of a quorum, the quorum at the reconvened meeting shall be one person holding shares of that class in question. The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other rights shall not (unless otherwise provided by the terms of issue) be deemed to be varied by the creation of or issue of further shares ranking *pari passu* therewith.

Depository Interests and Uncertificated Shares

The directors shall, subject always to any applicable laws and regulations and the facilities and requirements of any relevant system concerned and the Articles, have power to implement and/or approve any arrangement they may think fit in relation to the evidencing of title to and transfer of interest in shares in the capital of the Company in the form of depository interest or similar interests, instruments or securities. The directors may permit shares (or interest in shares) to be held in uncertificated form and to be transferred by means of a relevant system of holding and transferring shares (or interest in shares) in uncertificated form in such manner as they may determine from time to time and may determine that any class of shares shall cease to be a participating security for the purposes of any regulations issued under the Guernsey Companies Law authorising transfer of shares in dematerialised form.

Dividends

Subject to the Guernsey Companies Law and the Articles, the Company in general meeting may by ordinary resolution declare dividends, but no dividend shall exceed the amount recommended by the Board.

The directors may pay such interim dividends as appear to be justified by the assets of the Company.

No dividend or other moneys payable in respect of a share shall bear interest against the Company. All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee thereof. Any dividend unclaimed after a period of ten years from the date when it first became due for payment shall, if the directors so resolve, be forfeited and cease to remain owing by the Company.

The directors may deduct from any dividend payable to any shareholder on or in respect of a share all sums of money (if any) presently payable by him to the Company in relation to the shares.

The directors may establish in respect of each class of shares a reserve account and before the declaration of a dividend may set aside any part of the assets attributable to the relevant class and carry to the credit of any reserve account maintained for that class such sums as they think proper which shall, in the discretion of the directors, be applicable for any purpose to which the profits or assets or reserves may in the like discretion be properly applied and pending such application may be employed in the business of the Company as the directors may from time to time think fit.

Capitalisation of Reserves

The directors may with the authority of an ordinary resolution of the Company resolve to capitalise any undistributed assets of the Company not required for payment of any preferential dividend, and appropriate the sum resolved to be capitalised to shareholders in proportion to the number of shares held by them respectively which would enable them to participate in a distribution of that sum if the shares were fully paid and the sum was distributed and apply such sum either in or towards paying up any amounts for the time being unpaid on any shares held by such shareholders respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such shareholders in the proportion aforesaid, or partly in the one way and partly in the other.

The directors may make such provision by the issue of fractional certificates or by payment in cash or otherwise as they determine in the case of shares or debentures becoming distributable in fractions and may authorise any person to enter on behalf of all the shareholders concerned with an agreement with the Company providing for the allotment to them respectively, credited as fully paid, of any shares or debentures to which they are entitled upon such capitalisation.

Share Capital

The Company may alter its share capital in accordance with the Guernsey Companies Law and, without prejudice to the foregoing, the Company may by ordinary resolution:

- consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- subdivide all or any of its shares into shares of smaller amount;
- cancel any shares which at the date of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled;
- convert all or any of its shares denominated in a particular currency or former currency into shares denominated in a different currency; and
- where the share capital is expressed in a particular currency or former currency, denominate or redenominate it.

Subject to the Guernsey Companies Law, the Directors may resolve to reduce the Company's share capital or any of the Company's reserve accounts in any manner.

Shares

The Company may issue an unlimited number of shares.

Subject to the Guernsey Companies Law and the provisions of the Articles, any share in the Company may be issued with or have attached thereto such preferred, deferred, conversion or other rights or restrictions as the Company may determine by ordinary resolution from time to time or, subject to such direction as the directors shall determine.

Subject to the laws of Guernsey and the Articles, the Company may:

- (a) issue or purchase fractions of shares;
- (b) issues shares of par value or no par value or a combination of both;
- (c) from time to time acquire any of its own shares, which may be cancelled or held as treasury shares;
- (d) and any of its subsidiaries may, give financial assistance as defined in the Guernsey Companies Law;
- (e) issue shares which are liable to be redeemed and convert all or any class of its shares into redeemable shares;
- (f) issue shares which do not entitle the holder to voting rights or entitle the holder to restricted voting rights; and
- (g) exercise the powers of paying commissions and in such an amount or at such a percentage rate as the directors may determine and, on any issue of shares, pay such brokerage as may be lawful.

Transfer of Shares

Any shareholder may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the directors may approve, which shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.

The instrument of transfer shall be lodged at the registered office or such other place as the directors may determine.

The registration of transfers of any class of shares may be suspended by giving such notices as may be required by the rules of any relevant system at such times and for such periods (not exceeding thirty days in any year) as the directors may determine.

The directors may only decline to register a transfer of an uncertificated share in the circumstances set out in regulations issued for this purpose under the laws of Guernsey or such as may otherwise from time to time be adopted by the directors on behalf of the Company and the rules of any relevant system, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

General Meetings

Annual general meetings may be held at such time and place in Guernsey or elsewhere as shall be determined by the directors. All general meetings other than annual general meetings shall be called extraordinary general meetings.

The directors may call an extraordinary general meeting in Guernsey or any other place at any time.

Not less than 10 days' notice shall be given of any general meeting (unless it is so agreed to have shorter notice by all the shareholders entitled to attend and vote thereat).

At any general meeting, a resolution put to the vote of the meeting shall be decided on a poll in accordance with the provisions of the Articles and it shall not be permitted for a vote to be decided on a show of hands.

The quorum for any meeting of the Company shall be two shareholders present in person (or represented by proxy) holding at least one third of the issued shares of the Company, unless the Company has only one shareholder, in which case the quorum for any meeting of the Company shall be one shareholder present in person or by proxy and entitled to vote.

Appointment of Directors and Fees

Until otherwise determined by ordinary resolution, the number of directors shall not be subject to any maximum but shall not be less than one. The directors shall have power at any time to appoint any person to be a director either to fill a casual vacancy or as an additional director. The Company may by ordinary resolution appoint any person to office as a director or remove any person from office as a director.

The directors shall be remunerated for their services at such rate as the directors shall determine. The directors may be paid all reasonable travelling, hotel and other out of pocket expenses properly incurred by them in connection with their attendance at meetings of the directors or any committee of the directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

Election, Re-election and Retirement of Directors

Any person appointed by the directors as a director shall hold office only until the next annual general meeting and shall then be eligible for election.

Powers of Directors

Subject to the laws of Guernsey, the memorandum of incorporation and the Articles and to any directions given by ordinary resolution, the business of the Company shall be managed by the directors who may exercise all the powers of the Company in any part of the world. The powers given by the relevant Article shall not be limited or restricted by another special authority or power given to the directors by the Articles.

Proceedings of the Directors

Subject to the Articles, the directors may regulate their proceedings as they determine.

The quorum for the transaction of the business of the directors shall, unless the directors determine otherwise, be such number which from time to time constitutes a majority of the directors, provided that not less than two persons shall be present at any meeting, or where there is a sole director, the quorum shall be one.

Any director enabled to participate in the proceedings of a meeting by means of a communication device (including a telephone) which allows all of the other directors present at such meeting to hear or read what is said or communicated by such director at all times and such director to hear or read what is said or communicated by all

other directors present at such meeting at all times (in each case whether in person or by means of such type of communication device) shall be deemed to be present at such meeting and shall be counted when reckoning a quorum.

The directors may elect one of their number as chairman of their meetings and may at any time remove him from office.

Directors' Interests

Subject to the Guernsey Companies Law and provided that he has disclosed to the Board of Directors the nature and extent of any interests of his, a director:

- (a) may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of director;
- (b) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested;
- (c) may be a director, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;
- (d) shall not, by reason of his office, be accountable to the Company for any remuneration or benefit which he derives from such interest, and no transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit;
- (e) may act by himself or his firm in a professional capacity for the Company and be entitled to remuneration for professional services as though he were not a director.
- (f) may be counted in the quorum present at any meeting where he or any other director is appointed to hold any such office or place of profit under the Company, or where the terms of appointment are arranged, and he may vote on any such appointment or arrangement other than his own appointment or the terms thereof; and
- (g) a director may vote in respect of any transaction, arrangement or proposed transaction or arrangement in which he has an interest which he has disclosed in accordance with the Articles.

Alternate Directors

Any director (other than an alternate director) may appoint any other director or any other person to be an alternate director to attend and vote in his place at any meeting of the directors at which he is not present in person or to undertake and perform such duties and functions and to exercise such rights as he would in person.

Indemnity

Without prejudice to any indemnity to which he may otherwise be entitled, every person who is or was a director, alternate director, secretary, resident agent or other officer of the Company, and their respective heirs and executors may be fully indemnified in so far as the Guernsey Companies Law allows, out of the assets and profits of the Company from and against all actions, expenses and liabilities, which they or their respective heirs or executors may incur by reason of any contract entered into or any act in or about the execution of their respective offices or trusts, except such (if any) as they may incur by or through their own fraud, wilful misconduct or negligence respectively. The directors may exercise all the powers of the Company to purchase and maintain insurance for the benefit of a person who is or was a director, alternate director, secretary, resident agent or auditor of the Company or of a company which is or was a subsidiary undertaking of the Company or in which the Company has or had an interest (whether direct or indirect), indemnifying him against liability for negligence, default, breach of duty or breach of trust or other liability which may lawfully be insured against by the Company.

Borrowing Powers

The directors may exercise all the powers of the Company to borrow money, to secure any debt or obligation of or binding on the Company and to secure the repayment of any money borrowed or owing by mortgage, charge, pledge or lien upon the whole or any part of the Company's undertaking, property or assets, and also by a similar mortgage, charge, pledge or lien to guarantee the performance of any obligation or liability undertaken by the Company or any third party.

Winding Up

If the Company shall be wound up the Company may with the authority of a special resolution and any other sanction required by the Guernsey Companies Law divide among the shareholders in specie the whole or any part of the assets of the Company. The Company may with the like authority vest any part of the assets in trustees upon such trusts for the benefit of shareholders but so that no shareholder shall be compelled to accept any assets in respect of which there is any outstanding liability.

Where the Company is proposed to be or is in course of being wound up and the whole or part of its business or property is proposed to be transferred or sold to another company (for the purposes of this provision, the “**transferee**”) the liquidator may, with the sanction of an ordinary resolution, receive in compensation shares, policies or other like interests for distribution or may enter into any other arrangements whereby the shareholders may, in lieu of receiving cash, shares, policies or other like interests, participate in the profits of or receive any other benefits from the transferee.

Reports and Accounts

The directors shall cause proper books of account to be kept with respect to all the transactions, assets and liabilities of the Company in accordance with the Guernsey Companies Law.

No shareholder shall be entitled to inspect the books, accounts and documents of the Company except as provided by the Guernsey Companies Law or authorised by the directors or the Articles.

Mandatory Bids and Squeeze-out Rules

The City Code on Takeovers and Mergers (the “**Takeover Code**”) applies to all takeovers and merger transactions, however effected, where *inter alia*, the offeree company is a public company which has its registered office in the United Kingdom, the Isle of Man or the Channel Islands, if the company has its securities admitted to trading on a regulated market in the United Kingdom or on any stock exchange in the Channel Islands or the Isle of Man. The Takeover Code will therefore apply to the Company from Admission, and its Shareholders will be entitled to the protection afforded by the Takeover Code.

In particular, under Rule 9 of the Takeover Code, when: (i) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which he is already interested and in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of such a company, subject to the Takeover Code; or (ii) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. but not more than 50 per cent. of the voting rights of such a company, and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, then, except with the consent of the Panel on Takeovers and Mergers (the “**Panel**”), he, and any person acting in concert with him, must make a general offer in cash to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights to acquire the balance of the shares not held by him and his concert party.

Save where the Panel permits otherwise, an offer under Rule 9 of the Takeover Code must be in cash or be accompanied by a cash alternative and be at the highest price paid within the 12 months prior to the announcement of the offer for any shares in the company by the person required to make the offer or any person acting in concert with him. Offers for different classes of equity share capital must be comparable; the Panel should be consulted in advance in such cases.

The Guernsey Companies Law provides that where a scheme or contract involves the transfer of shares or any class of shares in a company to any person (the “**transferee**”), if, within four months after the date of making an offer in respect of such scheme or contract, the offer is approved by shareholders comprising 90 per cent. in value of the shares affected (excluding any treasury shares), the transferee may, within two months following that four month period, give notice to any dissenting shareholder that the transferee desires to acquire the dissenting shareholder’s shares (“**Notice**”). Subject to a dissenting shareholder’s right to apply to court to cancel such Notice, where a Notice is given, the transferee is entitled and bound to acquire those shares on the terms on which under the scheme or contract the approving shareholders’ shares are to be transferred to the transferee.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate. Certain fees and expenses of the Depositary may be waived by the Depositary following agreement with the Company. Currently, the Depositary has waived any dividend distribution fee payable in respect of the first dividend paid by the Company each year, (if any).

The Global Depositary Receipts (“GDRs”) represented by this certificate are issued in respect of ordinary shares (the “Shares”) in ETALON GROUP LIMITED (the “Company”) pursuant to and subject to an agreement dated on or about 15 April 2011, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the “Depositary”) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “Conditions”), references to the “Depositary” are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in Guernsey as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “Register”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

- (a) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Guernsey of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
- (b) the payment of such fees, taxes, duties, charges, costs, expenses and governmental charges as may be required under these Conditions or the Deposit Agreement;

- (c) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer reasonably satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (d) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (a) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (b) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; **provided however that** the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (i) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(a) and (b) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (ii) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Guernsey of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and that the Shares being deposited are not restricted securities.

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (“QIB”)) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Selling and Transfer Restrictions”.

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a GDR certificate in definitive form or a separate temporary Master Regulation S GDR and/or temporary Master Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and/or a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR or Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; **provided, however, that** the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limit for the purpose of general application. The Depositary will also set dollar limits with respect to Pre-Release transactions hereunder with any particular Pre-Releasee on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.6 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7).

- 1.7 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 and in Schedule 4 Parts A and B as it may reasonably determine are required in order for the

Depository to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depository shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depository will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depository receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depository that any such Shares are eligible for resale pursuant to Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act"). Further, the Depository may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depository in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depository shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depository in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depository will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depository and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

4. Cash Distributions

Whenever the Depository shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depository shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depository shall, if practicable in the opinion of the Depository, give notice to the Holders of its receipt of such payment in accordance with Condition 22, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depository, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; **PROVIDED THAT:**

- (a) in the event that the Depository is aware that any Deposited Shares are not entitled to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depository will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which

the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(d).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall, as soon as practicable, cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs represented by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 22, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (a) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in GBP or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs represented by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

- (b) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (c) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (i) will, **PROVIDED THAT** Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (d)
 - (i) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in GBP or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).
 - (ii) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.
 - (iii) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Guernsey counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will not, unless prohibited by applicable law or regulation, unreasonably withhold its consent to, and if it has so consented, will on request use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable convert or cause to be converted, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency without liability for interest for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 22, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the

Depository shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depository shall (except for any distribution upon the liquidation of the Company when the Depository shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation and the Company's constitutional documents.

10. Capital Reorganisation

Upon any sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depository shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Guernsey and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Guernsey in order for the Depository to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depository shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the Depository by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depository to take any action in conflict with market practice or in a capacity other than its capacity as Depository, at the expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depository of any resolution to be proposed at a General Meeting of the Company, or any resolution proposed as a written resolution, and the Depository will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depository that it will promptly provide to the Depository sufficient copies, as the Depository may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as any proposed written resolution of the Company and written requests containing voting instructions by which each Holder may give instructions to the Depository to vote for or against each and any resolution specified in the agenda for the meeting or specified in any written resolutions, which the Depository shall send to any person who is a Holder on the record date established by the Depository for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depository in accordance with Condition 22. The Company has also agreed to provide to the Depository appropriate proxy forms to enable the Depository to appoint a representative to attend the relevant meeting and vote on behalf of the Depository.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the settlement systems should

be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that, as relevant, a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Guernsey law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Guernsey law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall not, and shall have no obligation to, vote or cause to be voted such Deposited Shares.
- 12.6 If and to the extent the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Guernsey law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3 or 12.4 the Depositary shall not to such extent vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3 or 12.4 above the Depositary shall notify the chairman of the board of directors of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Guernsey law and the constitutional documents of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Guernsey law.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 22.

14. Liability

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Guernsey or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent, or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutional documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement (where such exercise or failure to exercise results from any of the circumstances described above). Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document reasonably believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- 14.3 Neither the Depositary nor any Agent shall be liable to the Company or any Holder or owner of GDRs or any other person: (i) by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic, or (ii) for its failure to perform any obligations under the Deposit Agreement or these Conditions, except in either case for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 20 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 21, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction

or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, **provided that** no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (**provided that** it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary. Notwithstanding the foregoing, the Depositary has agreed to provide to the Company prior written notice of any delegation or sub-delegation under this Condition 14.14, if such delegation or sub-delegation is deemed material and not in the ordinary course of business in the reasonable opinion of the Depositary (save that no prior written notice shall be required in the case of delegation to any affiliate or subsidiary of the Depositary), and any person who is the subject of a delegation or sub-delegation in respect of which prior written notice is required pursuant to this sentence shall be deemed an agent of the Depositary for the purposes of Condition 14.17
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose

business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit, subject always to Condition 9.17.

- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance, or the exercise or attempted exercise of (or the failure to exercise any of) its powers or discretions, under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Guernsey law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

- 16.1 The Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (a) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
 - (b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
 - (c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
 - (d) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
 - (e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

- (f) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR;
- (g) a fee of U.S.\$0.03 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (i) below;
- (h) a fee of U.S. \$0.01 or less per GDR per annum for local share registry inspection and related services by the Depositary or the Custodian or their respective agents, which shall be payable as provided in paragraph (i) below; and
- (i) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

- 16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

- 17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian **PROVIDED THAT** the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary **PROVIDED THAT**, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. The Depositary in its discretion may appoint a substitute or additional custodian or custodians, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify Holders of such change in accordance with Condition 22. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; **PROVIDED THAT**, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

19. Resignation and Termination of Appointment of the Depositary

- 19.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as

Depository by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depository to the Holders in accordance with Condition 22.

The termination of the appointment or the resignation of the Depository shall take effect on the date specified in such notice; **PROVIDED THAT** no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depository under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depository. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depository with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depository to the Holders in accordance with Condition 22.

- 19.2 Upon the termination of the appointment or resignation of the Depository and against payment of all fees and expenses due to the Depository from the Company under the Deposit Agreement, the Depository shall deliver to its successor as depository sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement (or any replacement agreement) and shall deliver and pay to such successor depository all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depository, and shall hold the Deposited Property for such successor depository, and the Depository shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

20. Termination of Deposit Agreement

- 20.1 Either the Company or the Depository but, in the case of the Depository, only if the Company has failed to appoint a replacement Depository within 90 days of the date on which the Depository has given notice pursuant to Condition 19 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. After a termination notice has been given in accordance with this Condition 20.1: (a) within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depository to Holders of all GDRs then outstanding in accordance with Condition 22; and (b) the Depository shall make reasonable endeavours to take all appropriate steps for the termination of the GDR facilities established pursuant to this Agreement as soon as reasonably practicable.
- 20.2 During the period beginning on the date of the giving of such notice by the Depository to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1(a)(i) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depository and/or any other expenses incurred by the Depository (together with all amounts which the Depository is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.
- 20.3 If any GDRs remain outstanding after the date of termination, the Depository shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement by public or private sale, and on such terms, as the Depository considers appropriate, and the Depository shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale prior to such sale. The Depository shall have no obligation to, and shall not, register transfers, shall not pass on dividends or distributions or take any other action in relation to GDRs remaining outstanding after the date of termination, except that it will deliver the net proceeds of any sale of Deposited Property, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depository shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

21. Amendment of Deposit Agreement and Conditions

- 21.1 Subject to Condition 21.3, all and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 21) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of 30 calendar days after such notice shall have been given. During such period of 30 calendar days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.
- 21.2 For the purposes of this Condition 21, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares **PROVIDED THAT** temporary GDRs will represent such Shares until they are so consolidated.
- 21.3 The Company and the Depositary may at any time by agreement in any form amend the number of Shares represented by each GDR, provided that each outstanding GDR represents the same number of Shares as each other outstanding GDR, and at least 30 calendar days notice of such amendment is given to the Holders, but in no circumstances shall any amendment pursuant to this Condition 21.3 be regarded as an amendment requiring 30 calendar days notice in accordance with Condition 21.1.

22. Notices

- 22.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 22.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

23. Reports and Information on the Company

- 23.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any reports and accounts publicly filed by the Company and sent to holders of Shares generally.
- 23.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 23.3 For so long as any of the GDRs remains outstanding and are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to

the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

24. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

25. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

26. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

27. Governing Law

27.1 The Deposit Agreement, the GDRs, and all non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Guernsey law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

27.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited with offices at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and has agreed to receive service of process in any

Proceedings in New York by mail at its registered office address. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

- 27.3 The courts of England are to have jurisdiction to settle any disputes (each a “**Dispute**”) which may arise out of or in connection with the GDRs (including any dispute relating to the existence, validity or termination of the GDRs, or any non-contractual obligation arising out of or in connection with the GDRs, or the consequences of the nullity of the GDRs), and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 27.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 27.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 27.6 The Depositary irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 27.7 To the extent that the Company may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Company or its assets or revenues, the Company has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Rule 144A GDR will be deposited with The Bank of New York Mellon in New York as custodian for DTC and registered in the name of Cede & Co as nominee for DTC on the date the GDRs are issued. The Master Regulation S GDR will be deposited with The Bank of New York Mellon, London Branch as common depositary for Euroclear and Clearstream (and registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for the common depositary) on the date the GDRs are issued.

The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (a), (b), (c) or (d) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- (a) DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, in the case of the Master Regulation S GDR, notifies the Company that it is unwilling or unable to continue as settlement system and a successor settlement system is not appointed within 90 calendar days;
- (b) Either DTC in the case of the Master Rule 144A GDR, or Euroclear or Clearstream in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative settlement system satisfactory to the Depositary is available within 45 calendar days;
- (c) in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a “clearing agency” registered under the United States Securities Exchange Act of 1934, as amended; or
- (d) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense of the Holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream (in the case of GDRs represented by the Master Regulation S GDR), or by DTC (in the case of GDRs represented by the Master Rule 144A GDR), on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee for a common depository holding on behalf of Euroclear and Clearstream, and the Master Rule 144A GDR is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 22.

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following summary of the principal U.S. federal income, United Kingdom and Guernsey tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT ITS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

Notice Pursuant to U.S. Treasury Department Circular 230: All discussions of U.S. federal tax considerations in this document have been written to support the marketing of the GDRs. Such discussions were not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding U.S. federal tax penalties. Investors should consult their own tax advisers in determining the tax consequences to them of holding the GDRs, including the application of their particular situation of the U.S. federal tax considerations discussed below, as well as the application of U.S. state, local, non-U.S., or other tax laws.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to a U.S. Holder (as defined below) acquiring, holding and disposing of GDRs, based on the U.S. Internal Revenue Code of 1986, as amended (the “**IRC**”), existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the U.S. Internal Revenue Service (“**IRS**”), and court decisions, all as in effect as of the date hereof, and all of which are subject to change or differing interpretations, possibly with retroactive effect. In addition, this summary is based, in part, upon certain representations made by the Depositary to the Company and the assumption that each obligation in the Deposit Agreements, and any related agreements, will be performed in accordance with its terms. This summary does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual investment circumstance, including investors subject to special tax rules, such as residents of the Russian Federation or Guernsey, UK Holders (as defined below), investors that conduct a business or have a permanent establishment in the Russian Federation, the United Kingdom or Guernsey, financial institutions, dealers in securities or currencies, insurance companies, broker-dealers, tax-exempt organisations, holders liable for the alternative minimum tax, securities traders who elect to account for their investment in GDRs on a mark-to-market basis, partnerships and partners therein, holders who are not U.S. Holders, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, investors that will hold GDRs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, or investors that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarised below. In addition, this summary does not discuss any other U.S. federal, state, local or non-U.S. tax considerations. This summary assumes that investors will hold their GDRs as “capital assets” (generally, property held for investment) for U.S. federal income tax purposes. You are urged to consult your tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax considerations relevant to an investment in the GDRs.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of GDRs that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the law of, the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust.

Ownership of GDRs in General

For U.S. federal income tax purposes, an owner of GDRs generally will be treated as the owner of the Ordinary Shares represented by such GDRs, and no gain or loss will be recognised if you exchange a GDR for the Ordinary

Shares represented by that GDR Your tax basis in such Ordinary Shares will be the same as your tax basis in such GDRs, and the holding period in such Ordinary Shares will include the Holding period in such GDRs.

Dividends

Subject to the application of the passive foreign investment company rules discussed below, a U.S. Holder will recognise ordinary dividend income for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property the Company distributes as a distribution (other than certain *pro rata* distributions of our shares to all holders, including holders of GDRs) to the extent that such distribution is paid out of its current or accumulated earnings and profits, as determined under U.S. federal income tax principles, when such distribution is received by the Depositary. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to the Ordinary Shares will constitute ordinary dividend income. The amount of a distribution paid in GBP will be measured by reference to the exchange rate for converting GBP into U.S. dollars in effect on the date the distribution is received by the Depositary. If the Depositary converts such distribution into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognise foreign currency gain or loss in respect of such income. If the Depositary does not convert such GBP into U.S. dollars on the date it receives them, it is possible that the U.S. Holder will recognise foreign currency loss or gain, which would be ordinary loss or gain, when the GBP are converted into U.S. dollars. The gross amount of dividends a U.S. Holder receives generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction allowed to corporations under the IRC. In addition, dividends received by non-corporate U.S. Holders will not be “qualified dividend income” and therefore will not be eligible for the special reduced rate normally applicable to long-term capital gains.

Sale or Other Disposition of GDRs

Subject to the application of the passive foreign investment company rules discussed below, upon the sale or other disposition of a GDR (other than an exchange of GDRs for Ordinary Shares), a U.S. Holder will generally recognise capital gain or loss for U.S. federal income tax purposes, equal to the difference between the U.S. dollar value of the amount realised upon the disposition and the U.S. Holder’s adjusted tax basis in such GDRs (generally their cost in U.S. dollars). Any capital gain or loss will be long-term if the GDRs have been held for more than one year. The holding period for GDRs will not begin until the conditions to the Offering are met and the Ordinary Shares are deposited with the Depositary. Upon the sale or other disposition of Pre-Deposit GDRs (other than for the return of the purchase price for Pre-Deposit GDRs upon cancellation of the Offering), a U.S. Holder will generally recognise short-term capital gain or loss for U.S. federal income tax purposes, equal to the difference between the amount realised on the disposition and the U.S. Holder’s tax basis in such Pre-Deposit GDR. Non-corporate U.S. Holders of GDRs may be eligible for a preferential rate of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses may be subject to limitations.

Passive Foreign Investment Company Rules

We do not believe we were a passive foreign investment company (“PFIC”) for our preceding tax year, and do not expect to be classified as a PFIC in the foreseeable future, for U.S. federal income tax purposes. However, the determination of whether we are a PFIC is made annually and is based on the composition of our assets and income on certain dates. Therefore, it is possible that we could become a PFIC in the current or any future year due to our asset or income composition, as well as that of our subsidiaries, on the relevant testing dates. In general, a non-U.S. corporation will be classified as a PFIC for any taxable year if at least (i) 75% of its gross income is classified as “passive income” or (ii) 50% of the average quarterly value of its assets produce or are held for the production of passive income. In making this determination, the non-U.S. corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any company in which it holds a 25% or greater interest, by value. For these purposes, rental income is generally passive unless it is derived from the active conduct of a trade or business. Under the PFIC rules, if we were considered a PFIC at any time that you held our GDRs, we would continue to be treated as a PFIC with respect to your investment unless you have made certain elections under the PFIC rules.

If we are classified as a PFIC at any time that you hold our GDRs, you may be subject to materially adverse U.S. federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of U.S. tax and being subject to additional U.S. tax form filing requirements. You should consult your own tax adviser about the application of the PFIC rules to you.

Information Reporting and Backup Withholding

The payment of dividends on, and proceeds from the sale or other disposition of, the GDRs to a U.S. Holder within the United States (or through certain U.S. related financial intermediaries) will generally be subject to information reporting unless the U.S. Holder is an exempt recipient. Such dividends and proceeds may be subject to backup withholding on the amounts received unless the U.S. Holder timely provides a taxpayer identification number and otherwise complies with the requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding collected from a payment that you receive will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the IRS.

In addition, you should consult your tax advisers about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the GDRs.

CERTAIN UNITED KINGDOM TAX CONSIDERATIONS

The following is a general summary of certain UK tax considerations relating to the ownership and disposal of the GDRs. It is based on current UK tax law and published HM Revenue & Customs (“HMRC”) practice as at the date of this prospectus, both of which are subject to change, possibly with retrospective effect.

The summary applies only to persons who are resident (and, in the case of individuals, ordinarily resident and domiciled) in the UK for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected (“UK Holders”). Persons (a) who are not resident or ordinarily resident (or, if resident or ordinarily resident, are not domiciled) in the UK for tax purposes, including those individuals and companies who trade in the UK through a branch, agency or permanent establishment in the UK to which the GDRs are attributable, or (b) who are resident or otherwise subject to tax in a jurisdiction outside the UK, are recommended to seek the advice of professional advisors in relation to their taxation obligations.

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under UK tax law. In particular:

1. this summary only applies to the absolute beneficial owners of the GDRs and any dividends paid in respect of the underlying Ordinary Shares where the dividends are regarded for UK tax purposes as that person’s own income (and not the income of some other person);
2. this summary: (a) only addresses the principal UK tax consequences for investors who hold GDRs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of investor such as dealers, brokers or traders in shares or securities and other persons who hold GDRs otherwise than as an investment, (c) does not address the tax consequences for holders that are financial institutions, insurance companies, collective investment schemes, pension schemes, charities or tax-exempt organisations, (d) assumes that the holder is not an officer or employee of the Company (or of any related company) and has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment and (e) assumes that the holder does not control or hold (and is not deemed to control or hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the GDRs), an interest of 10% or more in the Ordinary Shares, voting power, rights to profits or capital of the Company, and is not otherwise connected with the Company.

This summary further assumes that a holder of GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying Ordinary Shares and to the dividends on those Ordinary Shares.

The references to “dividends” contained under the heading “Taxation of Dividends” are to dividends that are treated as income distributions for UK tax purposes. The current expectation of the Company is that dividends paid by it will be so treated. However, there is currently some uncertainty in this area, so UK Holders are advised to consult their own professional advisers in relation to the UK tax treatment of any distributions from the Company.

Potential investors in the GDRs should satisfy themselves prior to investing as to the overall tax consequences, including, specifically, the consequences under UK tax law and HMRC practice of the acquisition, ownership and disposal of the GDRs, in their own particular circumstances by consulting their own tax advisers.

Taxation of dividends

Withholding Tax

Dividend payments in respect of the GDRs may be made without withholding or deduction for or on account of UK tax.

Income Tax

Dividends received by individual UK Holders will be subject to UK income tax on the full amount of the dividend paid, grossed up for the amount of the non-refundable UK dividend tax credit referred to below.

The rate of UK income tax which is chargeable on dividends received in the tax year 2011/2012 by (i) additional rate taxpayers is 42.5%, (ii) higher rate taxpayers is 32.5%, and (iii) basic rate taxpayers is 10 per cent. Individual UK Holders will be entitled to a non-refundable tax credit equal to one-ninth of the full amount of the dividend received from the Company, which will be taken into account in computing the gross amount of the dividend which is chargeable to UK income tax. The tax credit will be credited against the UK Holder's liability (if any) to UK income tax on the gross amount of the dividend. After taking into account the tax credit, the effective rate of tax (i) for additional rate taxpayers will be approximately 36% of the dividend paid, (ii) for higher rate taxpayers will be 25% of the dividend paid, and (iii) for basic rate taxpayers will be nil. An individual shareholder who is not subject to UK income tax on dividends received from the Company will not be entitled to claim payment of the tax credit in respect of such dividends. An individual's dividend income is treated as the top slice of their total income which is chargeable to UK income tax.

Corporation Tax

A UK Holder within the charge to UK corporation tax that is not a "small company" for the purposes of Part 9A of the Corporation Tax Act 2009 should generally be entitled to exemption from UK corporation tax in respect of dividend payments. If the conditions for the exemption are not satisfied, or a UK Holder elects for an otherwise exempt dividend to be taxable, UK corporation tax will be chargeable on the gross amount of any dividends. If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Provision of information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person, may, in certain circumstances, be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the "foreign dividend", and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in accordance with guidance published by HMRC applicable for the 2011/2012 tax year, dividend payments in respect of the GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of disposals

A disposal or deemed disposal of GDRs by an individual UK Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of UK capital gains tax. The principal factors that will determine the capital gains tax position on a disposal of GDRs are the extent to which the holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "annual exemption"). The annual exemption for the 2011/2012 tax year is GBP10,600. If, after all allowable deductions, an individual UK Holder's taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal of GDRs may be taxed at 18% or at a combination of 18% and 28% tax rates.

An individual UK Holder who ceases to be resident or ordinarily resident in the United Kingdom for a period of less than five years and who disposes of his or her GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of GDRs by a corporate UK Holder may give rise to a chargeable gain or an allowable loss for the purpose of UK corporation tax. Such a holder should be entitled to an indexation allowance, which applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations relating to the GDRs would be brought into account on the disposal.

Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the GDRs or their delivery into Euroclear, Clearstream or DTC.

No UK stamp duty reserve tax will be payable in respect of an agreement to transfer GDRs.

No UK stamp duty will be payable on any transfer of the GDRs once they are issued into Euroclear, Clearstream or DTC, where such transfer is effected in electronic book entry form in accordance with the procedures of Euroclear, Clearstream or DTC (as applicable).

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of GDRs where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

GUERNSEY TAX CONSIDERATIONS

The Company is currently tax resident in Guernsey subject to a rate of 0%. However, upon application to the Director of Income Tax in Guernsey and subject to continuing compliance with certain statutory requirements, the Company can be eligible for exemption from income tax under the exempt company regime.

In September 2009, Guernsey and the other Crown Dependencies were informed by the UK government that their tax regimes did not meet the “spirit” of the EU Code of Conduct on Business Taxation (the “**Code**”).

The States of Guernsey is carrying out a review of its corporate tax regime, with the implementation of any required revisions to the regime not expected before 2013 at the earliest. The review is guided by the presumption of a 10% general rate of corporate tax (informed on the basis that 10% was the lowest rate of corporate tax in the EU and as such would be the maximum positive rate which could be applied whilst maintaining a competitive position).

The States of Guernsey published preliminary feedback to the public consultation on potential corporate tax reform in November 2010. The responses suggested that a territorial tax system is the preferred regime under consideration; however the key features of any potential new regime have yet to be determined at this time. A ‘green paper’ on the proposed alternative regime is expected to be published during the first half of 2011, for further consultation.

It is expected that the exempt company regime in Guernsey will continue.

Guernsey does not currently levy taxes upon capital inheritances, capital gains (with the exception of a dwellings profits tax, which is currently suspended), gifts, sales or turnover, nor are there any estate duties (save that ad valorem fees are payable in respect of the grant of any probate).

No stamp duty is chargeable in Guernsey on the issue, transfer, switching or redemption of shares.

No withholding tax is due on capital distributions, dividends or other income distributions made by the Company to any of its Shareholders (with the exception of dividends paid to Guernsey resident shareholders, as noted below).

Shareholders

Guernsey does not levy capital gains tax and, therefore, Guernsey resident Shareholders will not suffer any tax in Guernsey on capital gains. Payments made by the Company to non-Guernsey resident Shareholders, whether made during the life of the Company or by distribution on the liquidation of the Company, will not be subject to Guernsey tax.

In respect of distributions to shareholders who are resident for tax purposes in Guernsey, the Company will be required to deduct or account for the tax difference between the tax incurred by the company and the shareholder’s individual tax rate (20%) on actual and also potentially deemed distributions.

The Company may be required to provide details of distributions made to Shareholders resident in Guernsey to the Director of Income Tax in Guernsey.

SUBSCRIPTION AND SALE

GENERAL

We, the Selling Shareholders and the Underwriters named below have entered into an underwriting agreement dated 15 April 2011 (the “**Underwriting Agreement**”) with respect to the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement (described below), each of the Underwriters has agreed, severally but not jointly, to procure purchasers for (or failing which, to purchase) such number of GDRs as are set forth opposite its name in the following table.

<u>Underwriter</u>	<u>Number of GDRs</u>
Credit Suisse Securities (Europe) Limited	31,488,095
Renaissance Securities (Cyprus) Limited	31,488,095
VTB Capital plc	31,488,095
Total	<u>94,464,285</u>

The Offer Price for the GDRs is USD 7.00 per GDR. The Offer Price was determined on the basis of a bookbuilding process. The total expenses payable by the Company for the Offering, other than the Underwriters’ commissions and fees relating to the primary portion of the Offering and the Underwriter’s total expenses of USD 12.8 million, are estimated to be approximately USD 4.2 million. In addition, at its sole discretion, the Company may pay a discretionary fee of up to USD 5.0 million.

In the Underwriting Agreement, the Company and the Selling Shareholders have made certain representations and warranties. Additionally, in the Underwriting Agreement, the Company, Strata Investments Limited and Tract Investments Limited have agreed, subject to customary provisions, to indemnify the several Underwriters against certain liabilities, including liability under the Securities Act. The Underwriters are offering the GDRs when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the GDRs, and other conditions contained in the Underwriting Agreement, such as Admission and the receipt by the Underwriters of officers’ certificates and legal opinions.

The Underwriters may terminate the Underwriting Agreement prior to the closing of the Offering under certain specified conditions that are typical for an agreement of this nature. If any of such conditions are not satisfied or waived or the Underwriting Agreement is terminated prior to the closing of the Offering, then this Offering will lapse.

OVER-ALLOTMENT OPTION

Strata Investments Limited has granted the Stabilising Manager an Over-allotment Option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to 12,321,428 additional Ordinary Shares in the form of GDRs at the Offer Price, solely to cover over-allotments, if any, and short positions relating to stabilisation activities in connection with the Offering.

LOCK-UP ARRANGEMENTS

We and the Selling Shareholders have agreed, as part of the arrangements with the Underwriters, for a period of 180 days after the Closing Date, subject to certain limited exceptions, not to issue, offer, sell, lend, mortgage, assign, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares; or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of shares or such other securities, in cash or otherwise. The foregoing undertaking shall not apply to (i) the offer and sale of the GDRs in the Offering pursuant to the terms of the Underwriting Agreement; (ii) a disposal in connection with a general offer for the Ordinary Shares of the Company (including, without limitation, that represented by GDRs) of the Company, the provision of an irrevocable undertaking to accept such offer or to vote on a scheme as below, a disposal to an offeror or potential offeror during an offer period (within the meaning of the Takeover Code), or the voting on a scheme of arrangement or analogous procedure in respect of the Company; (iii) a disposal arising from operation of or required by law, or pursuant to an order of a court of competent jurisdiction requiring any Ordinary Shares to be sold or transferred or a consent order which has the same effect; (iv) any disposal of Ordinary Shares to any person who first enters into a lock-up agreement with the Underwriters, substantially on the

terms of the lock-up arrangements in the Underwriting Agreement; (v) a disposal pursuant to an offer by the Company to purchase its own Ordinary Shares which is made on identical terms to all holders of such Ordinary Shares and otherwise complies with requirements of applicable law; or (vi) any disposal by a Selling Shareholder, directly or indirectly, to any of its affiliates or any family member (which shall include any spouse, parent, sibling, child or grandchild of such individual) or the ultimate beneficial owner of such Selling Shareholder, whether by way of gift or otherwise.

STABILISATION

In connection with the Offering, the Stabilising Manager or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect other stabilising transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period. However, there is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time without prior notice, and may only be undertaken during the Stabilisation Period. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Save as required by law, the Stabilising Manager (or any person acting for it) does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

OTHER RELATIONSHIPS

The Underwriters and their respective affiliates have engaged in transactions with, and performed various investment banking, financial advisory and other services for, the Company and the Selling Shareholders and their respective affiliates, for which they received customary fees. The Underwriters and their respective affiliates may provide such services for the Company and the Selling Shareholders and their respective affiliates in the future.

In connection with the Offering, each of the Underwriters and any affiliate, acting as an investor for its own account may take up GDRs and in that capacity may retain, purchase or sell for its own account such GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this prospectus to the GDRs being offered or placed should be read as including any offering or placement of GDRs to the Underwriters and any affiliate acting in such capacity. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholders and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Underwriters may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where securities are used as collateral, that could result in such Underwriters acquiring shareholdings in the Company.

SELLING AND TRANSFER RESTRICTIONS

GENERAL

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this prospectus comes should inform themselves about and observe any restrictions on the distribution of this prospectus and the offer, subscription and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. The GDRs are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Underwriters may directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of the GDRs within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Offering of the GDRs, an offer or sale of GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Underwriters has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

Each of the Underwriters has represented and agreed in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), that it has not made and will not make an offer to the public of any GDRs which are the subject of the Offering contemplated herein in that Relevant Member State other than the offers contemplated in the prospectus in relation to the GDRs once it has been approved by the competent authority in the United Kingdom, except that an offer of GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (a) to legal entities which are qualified investors as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Underwriters for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the publication by the group or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of any GDRs to the public*” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information of the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the

same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

In the case of any GDRs being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors who are not financial intermediaries as so defined or in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale. The group, the Selling Shareholders, the Underwriters and their respective affiliates, and others will rely (and the group and the Selling Shareholders each acknowledges that the Underwriters and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Underwriters of such fact in writing may, with the consent of the Underwriters, be permitted to subscribe for or purchase GDRs.

Russian Federation

Each of the Underwriters has represented and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Rule 144A GDRs

Each purchaser of the Rule 144A GDRs located in the United States, by its acceptance of delivery of this prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such GDRs for its own account or for the account of one or more QIBs and (iv) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
2. The purchaser is aware that the GDRs and the Ordinary Shares, purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, have not been and will not be registered under the Securities Act and are being offered in the United States only in transactions not involving any public offering in the United States and are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act (“Restricted Securities”).
3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs, purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF ETALON GROUP LIMITED REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF ETALON GROUP LIMITED THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A OF THE SECURITIES ACT) (“RULE 144A”) IN A TRANSACTION MEETING

THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS GDR CERTIFICATE, AGREES, FOR THE BENEFIT OF ETALON GROUP LIMITED AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

4. For so long as Ordinary Shares are Restricted Securities, it will not deposit such Ordinary Shares into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
5. The Company, the Selling Shareholders, the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S GDRs

Each purchaser of the Regulation S GDRs by its acceptance of the delivery of this prospectus will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. the purchaser is aware that the Regulation S GDRs and the Ordinary Shares have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
3. any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company;
4. the Company, the Selling Shareholders, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and
5. the purchaser understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

THIS MASTER REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF ETALON GROUP LIMITED REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS GDR CERTIFICATE, AGREES, FOR THE BENEFIT OF ETALON GROUP LIMITED AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

If a purchaser of GDRs is acquiring such GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depository links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depository, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "*Taxation — Certain U.S. Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee of The Bank of New York Mellon, London Branch, as common depository for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by The Bank of New York Mellon in New York as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every

other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are transferred to Euroclear or Clearstream, as the case may be, and the Depository will also be responsible for ensuring that payments received by it from us for holders holding through DTC are transferred to DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Luxembourg, Luxembourg.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement.

GLOBAL CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “*Terms and Conditions of The Global Depositary Receipts — Transfer Restrictions*” and “*Selling and Transfer Restrictions*.”

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depository to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depository to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or

Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depository to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, the Depository, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for us with respect to the laws of the United States and England by Cleary Gottlieb Steen & Hamilton LLP, with respect to the laws of Russia by Cleary Gottlieb Steen & Hamilton LLC and with respect to Guernsey law by Ogier. Certain legal matters with respect to the Offering will be passed upon for the Underwriters with respect to the laws of the United States and England by Linklaters LLP and with respect to the laws of Russia by Linklaters (CIS).

INDEPENDENT AUDITORS

The audited Consolidated Financial Statements included in this prospectus have been audited by KPMG Channel Islands Limited, of 20 New Street, St. Peter Port GY1 4AM, Guernsey (“**KPMG**”), independent auditors, as stated in their reports appearing herein.

GENERAL INFORMATION

- The Company’s entering into the Underwriting Agreement and the Deposit Agreement was duly authorised by the Board of Directors on 14 April 2011 in accordance with the Company’s memorandum and articles of incorporation. The board of directors of each of the Selling Shareholders duly approved and authorised the transfers and sale of the Ordinary Shares, and each of the Selling Shareholder’s entering into the Underwriting Agreement on 15 April 2011.
- It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate, to the Official List on or about 20 April 2011. Application has been made for the additional GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules on an “as, when and if issued” basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
- We have obtained all consents, approvals and authorisations in Guernsey, which are necessary in connection with the issue of the GDRs.
- Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered office of the Company from the date of publication of this prospectus:
 - this prospectus;
 - our memorandum and articles of incorporation (in English);
 - the Valuation Report;
 - our financial statements as of and for the years ended 31 December 2008, 2009 and 2010, together with the auditors’ reports relating thereto; and
 - the form of Deposit Agreement.

The registered office of the Company is located at Ogier House, St. Julian’s Avenue, St. Peter Port, Guernsey, GY1 1WA.

- If definitive certificates are issued in exchange for the Master GDR Certificates, we will appoint an agent in the United Kingdom for as long as the GDRs are listed on the London Stock Exchange.
- Except as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments*” on page 50, there has been no significant change in the financial and trading position of the Group since 31 December 2010.
- The following table sets forth the principal activity, registered office, and our ownership of each our significant subsidiaries:

<u>Company Name</u>	<u>Principal Activity</u>	<u>Registered Office</u>	<u>Ownership interest as of the date of this prospectus</u>
Management Company Etalon	Management services	2, Bogatyrsky Prospect, St. Petersburg, Russia 197348	99.5
SSMO LenSpetsSMU	Real estate development	50, Prospect Engelsa, St. Petersburg, Russia 194017	98.5
MFTC	Real estate development	50, Prospect Engelsa, St. Petersburg, Russia 194017	90.0
TSUN	Sales	2, Bogatyrsky Prospect, St. Petersburg, Russia 197348	100.0
Aktiv	Equipment maintenance	2, Bogatyrsky Prospect, St. Petersburg, Russia 197348	100.0
Novator	General contractor	Room 3N, lit. A, bld. 1, 27 Komendantsky Prospect, St. Petersburg, Russia 197371	90.0
LenSpetsSMU-Rekonstruktsiya	General contractor	2, Bogatyrsky Prospect, St. Petersburg, Russia 197348	80.0

- The GDRs have no nominal or par value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Underwriters. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.

- Holders of GDRs may contact The Bank of New York Mellon, as Depositary for the GDRs, with questions relating to the transfer of GDRs on the register maintained by the Depositary, which shall be maintained at the Depositary’s principal administrative office at 101 Barclay Street, New York, New York 10286.
- The CUSIP number for the Regulation S GDRs is 29760G 103, the ISIN number for the Regulation S GDRs is US29760G1031, the Common Code for the Regulation S GDRs is 053579302 and the SEDOL number for the Regulation S GDRs is B5TWX80. The CUSIP number for the Rule 144A GDRs is 29760G 202, the ISIN number for the Rule 144A GDRs is US29760G2021, the Common Code for the Rule 144A GDRs is 061455477 and the SEDOL number for the Rule 144A GDRs is B5MU1V3.
- The London Stock Exchange trading symbol for the GDRs is “ETLN”.
- There has been no material change in the aggregate Market Value of our properties since 31 December 2010, which is the date as of which our properties were assigned the Market Value set forth in the Valuation Report.
- JLL, whose registered office is at Kosmodamianskaya Nab. 52/3, Moscow, 115054, Russia, has given and has not withdrawn its written consent to the inclusion of the Valuation Report in this prospectus and to the inclusion of the references to the Valuation Report and its name in the form and context in which they are respectively included and has authorised the contents of the Valuation Report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. JLL accepts responsibility for the information contained in the Valuation Report and in the table Project Portfolio Overview set forth in “*Business — Residential Development — Portfolio Projects*”, and to the best of JLL’s knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in the Valuation Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

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Etalon Group Limited
Consolidated Financial Statements
For the year ended 31 December 2010

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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.

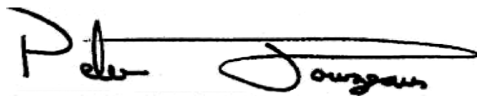
In preparing these financial statements, the directors are required to:

- 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.



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 2010, 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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 2010 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.

KPMG Channel Islands Limited

KPMG Channel Islands Limited

Chartered Accountants

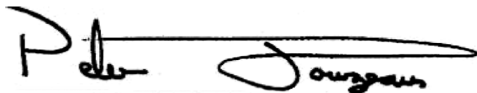
15 March 2011

Etalon Group Limited

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

mln RUB	Notes	<u>2010</u>	<u>2009</u>
Revenue	7	20,316	20,193
Cost of sales		<u>(11,078)</u>	<u>(11,023)</u>
Gross profit		9,238	9,170
General and administrative expenses	9	(2,047)	(1,440)
Selling expenses		(589)	(131)
Other expenses, net	10	<u>(177)</u>	<u>(196)</u>
Results from operating activities		<u>6,425</u>	<u>7,403</u>
Finance income	12	284	225
Finance costs	12	<u>(667)</u>	<u>(1,049)</u>
Net finance costs		<u>(383)</u>	<u>(824)</u>
Share of profit of equity accounted investees (net of income tax)		—	2
Profit before income tax		6,042	6,581
Income tax expense	13	<u>(1,355)</u>	<u>(1,434)</u>
Profit for the year		<u>4,687</u>	<u>5,147</u>
Total comprehensive income for the year		<u>4,687</u>	<u>5,147</u>
Profit attributable to:			
Owners of the Company		4,628	4,936
Non-controlling interest		<u>59</u>	<u>211</u>
Profit for the year		<u>4,687</u>	<u>5,147</u>
Total comprehensive income attributable to:			
Owners of the Company		4,628	4,936
Non-controlling interest		<u>59</u>	<u>211</u>
Total comprehensive income for the year		<u>4,687</u>	<u>5,147</u>
Earnings per share			
Basic and diluted earnings per share (thousand of RUB)	22	<u>4.14</u>	<u>4.42</u>

These consolidated financial statements were approved by the Board of Directors on 15 March 2011 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 F-11 to F-54.

Etalon Group Limited

Consolidated Statement of Financial Position as at 31 December 2010

mln RUB	Notes	<u>2010</u>	<u>2009</u>
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,660	1,662
Other long-term investments	15	39	33
Trade and other receivables	18	904	806
Deferred tax assets	16	263	1 116
Other non-current assets		<u>33</u>	<u>3</u>
Total non-current assets		<u>2,899</u>	<u>3,620</u>
Current assets			
Inventories	17	25,651	26,718
Trade and other receivables	18	3,964	3,876
Short-term investments	19	341	27
Cash and cash equivalents	20	3,636	3,416
Other current assets		<u>58</u>	<u>24</u>
Total current assets		<u>33,650</u>	<u>34,061</u>
Total assets		<u>36,549</u>	<u>37,681</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	21	1	1
Share premium		1,951	1,951
Retained earnings		<u>10,157</u>	<u>5,325</u>
Total equity attributable to equity holders of the Company		<u>12,109</u>	<u>7,277</u>
Non-controlling interest		<u>459</u>	<u>774</u>
Total equity		<u>12,568</u>	<u>8,051</u>
Non-current liabilities			
Loans and borrowings	23	6,702	2,572
Trade and other payables	25	261	382
Provisions	24	81	83
Deferred tax liabilities	16	<u>40</u>	<u>840</u>
Total non-current liabilities		<u>7,084</u>	<u>3,877</u>
Current liabilities			
Loans and borrowings	23	1,424	3,272
Trade and other payables	25	14,284	20,558
Provisions	24	<u>1,189</u>	<u>1,923</u>
Total current liabilities		<u>16,897</u>	<u>25,753</u>
Total equity and liabilities		<u>36,549</u>	<u>37,681</u>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-54.

Etalon Group Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2010

mln RUB	Attributable to equity holders of the Company				Non- controlling interest	Total equity
	Share capital	Share premium	Retained earnings	Total		
Balance at 1 January 2009	<u>1</u>	<u>1,951</u>	<u>397</u>	<u>2,349</u>	<u>593</u>	<u>2,942</u>
Total comprehensive income for the year						
Profit for the year	—	—	<u>4,936</u>	<u>4,936</u>	<u>211</u>	<u>5,147</u>
Other comprehensive income						
Total comprehensive income for the year . . .	—	—	<u>4,936</u>	<u>4,936</u>	<u>211</u>	<u>5,147</u>
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	—	—	—	—	(38)	(38)
Total contributions by and distributions to owners	—	—	—	—	(38)	(38)
Changes in ownership interests in subsidiaries that do not result in a loss of control						
Changes in ownership interest in subsidiaries	—	—	(8)	(8)	8	—
Total transactions with owners	—	—	(8)	(8)	(30)	(38)
Balance at 31 December 2009	<u>1</u>	<u>1,951</u>	<u>5,325</u>	<u>7,277</u>	<u>774</u>	<u>8,051</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-54.

Etalon Group Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2010 — (Continued)

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-54.

Etalon Group Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2010

mln RUB	Notes	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES:			
Profit for the year		4,687	5,147
<i>Adjustments for:</i>			
Depreciation	14	286	208
Gain on disposal of property, plant and equipment		(1)	(64)
Loss on disposal of subsidiaries		5	—
Share of profit of equity accounted investees		—	(2)
Finance cost, net		490	771
Impairment losses on loans given		—	75
Income tax expense		<u>1,355</u>	<u>1,434</u>
Cash from operating activities before changes in working capital and provisions		6,822	7,569
Change in inventories		1,520	2,594
Change in accounts receivable		(201)	(826)
Change in accounts payable		(6,659)	(6,233)
Change in provisions	24	(736)	420
Change in other current assets		(33)	(15)
Income tax paid		(1,083)	(504)
Interest paid		<u>(814)</u>	<u>(825)</u>
Net cash (used in)/from operating activities		<u>(1,184)</u>	<u>2,180</u>
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		31	109
Interest received		93	199
Acquisition of property, plant and equipment		(329)	(221)
Loans given		(106)	(266)
Loans repaid		61	7
Acquisition of subsidiaries, net of cash acquired		9	17
Disposal of subsidiaries, net of cash disposed of		(37)	—
Acquisition of other investments		<u>(277)</u>	<u>—</u>
Net cash used in investing activities		<u>(555)</u>	<u>(155)</u>
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		(97)	—
Proceeds from borrowings		10,794	8,649
Repayments of borrowings		(8,620)	(9,638)
Dividends paid		<u>(38)</u>	<u>(32)</u>
Net cash from/(used in) financing activities		<u>2,039</u>	<u>(1,021)</u>
Net increase in cash and cash equivalents		300	1,004
Cash and cash equivalents at beginning of year		3,416	2,378
Effect of exchange rate fluctuations on cash and cash equivalents		<u>(80)</u>	<u>34</u>
Cash and cash equivalents at end of year	20	<u>3,636</u>	<u>3,416</u>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-54.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

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.

The ultimate beneficiary shareholders of the Group are members of the family of Mr. Viacheslav Zarenkov, who owned 63.2% of the Company’s shares at 31 December 2010 (2009: 67%).

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 development, 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 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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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 23 — loan participation notes (LPNs);
- Note 24 — provisions;
- Note 29 — contingencies.
- Note 31 — special purpose entities (SPEs);

(e) Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations
- accounting for leases of land

(i) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

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.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Accounting for leases of land

The amendment to IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed (see note 27).

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, except as explained in note 2(e), which addresses changes in accounting policies.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.

(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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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.

(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) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The Group’s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(viii) 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. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial 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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within debt in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

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

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

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

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

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

(d) Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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 2010.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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 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 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 balance sheet 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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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 estimate 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 defines the moment of transfer of risks and rewards as the date when the buyer signs the act of acceptance of the property. 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. Revenue is recognised when the customer signs the act of acceptance of the construction service.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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 (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, 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, changes in the fair value of financial assets at fair value through profit or loss 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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) *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 2010, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2010)* introduces 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 is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The amendment is expected to have no impact on the Group’s consolidated financial statements.
- Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity’s own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group’s consolidated financial statements.
- 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 2013. 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 remaining parts of the standard are expected to be issued during the first half of 2011. 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

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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.
- Amendments to IFRIC 14: *IAS 19 — The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- 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 2011. 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) *Property, plant and equipment*

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(d) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, 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 or when acquired in a business combination.

(e) 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 2010 or 2009.

In the past, 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. Segment information for the years ended 31 December 2010 and 2009 has been recalculated according to the new structure and is presented below.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(a) Information about reportable segments

mln RUB	Residential development		Construction services		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	16,853	17,197	1,631	1,842	764	449	19,248	19,488
Inter-segment revenue	—	—	5,259	3,982	833	618	6,092	4,600
Total segment revenue	16,853	17,197	6,890	5,824	1,597	1,067	25,340	24,088
Gross profit	8,984	8,124	714	346	86	12	9,784	8,482
Reportable segment assets:								
inventory	25,572	25,856	381	172	1,358	1,664	27,311	27,692
Reportable segment liabilities:								
advances from customers	11,503	17,125	1,657	302	176	427	13,336	17,854

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(b) Geographical information

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

mln RUB	Revenues		Non-current assets	
	2010	2009	2010	2009
St. Petersburg metropolitan area	20,064	19,698	2,785	2,723
Moscow metropolitan area	252	495	114	897
	<u>20,316</u>	<u>20,193</u>	<u>2,899</u>	<u>3,620</u>

Major customer

In 2010 and 2009 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	2010	2009
Revenues		
Total revenue for reportable segments	25,340	24,088
Other revenue	1,068	705
Elimination of inter-segment revenue	(6,092)	(4,600)
Consolidated revenue	<u>20,316</u>	<u>20,193</u>
Profit or loss		
Gross profit for reportable segments	9,784	8,482
General and administrative expenses	(2,047)	(1,440)
Selling expenses	(589)	(131)
Other expenses, net	(177)	(196)
Finance income	284	225
Finance costs	(667)	(1,049)
Elimination of inter-segment profit	(651)	644
Other profit or loss	105	44
Share of profit of equity accounted investees	—	2
Consolidated profit before income tax	<u>6,042</u>	<u>6,581</u>
Assets		
Total assets for reportable segments: inventory	27,311	27,692
Elimination of unrealised gain	(1,671)	(1,020)
Other	11	46
Total inventories	<u>25,651</u>	<u>26,718</u>
Liabilities		
Total liabilities for reportable segments: advances from customers	13,336	17,854
Elimination of intersegment advances	(1,555)	(64)
Other unallocated amounts	133	79
Total advances from customers	<u>11,914</u>	<u>17,869</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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 subsidiary

There were no significant acquisitions of controlling interests in businesses in 2010.

On 18 December 2009 the Group obtained control of LLC "Severnaya Vysota I K" — a company holding construction cranes under finance lease contracts — by acquiring 70% of the shares and voting interests in the company. As a result, the Group's equity interest in LLC "Severnaya Vysota I K" increased from 30% to 100%.

Taking control of LLC "Severnaya Vysota I K" will enable the Group to reduce crane rent costs and safeguard access to cranes that are essential for the construction.

From the date of acquisition to 31 December 2009 LLC "Severnaya Vysota I K" did not contribute any material revenue and profit. The following summarizes the classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

The identifiable assets acquired and the liabilities assumed were as follows.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

mln RUR	<u>Recognised fair values on acquisition</u>
Non-current assets	587
Property, plant and equipment	567
Deferred tax assets	20
Current assets	<u>89</u>
Inventories	1
Trade and other receivables	71
Cash and cash equivalents	17
Non-current liabilities	<u>(505)</u>
Loans and borrowings	(209)
Trade and other payables	(296)
Deferred tax liabilities	—
Current liabilities	<u>(171)</u>
Loans and borrowings	(28)
Trade and other payables	<u>(143)</u>
Net identifiable assets, liabilities and contingent liabilities	<u>—</u>
Net identifiable assets, liabilities and contingent liabilities acquired	<u>—</u>
Carrying amount of existing 30% investment in the company	—
Consideration paid	—
Cash acquired	<u>17</u>
Net cash inflow	<u><u>17</u></u>

(b) Changes in non-controlling interests

During the year ended 31 December 2010 the Group acquired additional interests in a number of subsidiaries from companies controlled by 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 the 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

7 Revenue

mln RUB	<u>2010</u>	<u>2009</u>
Sale of flats	14,560	15,631
Construction services	1,631	1,842
Sale of built-in commercial premises	1 430	1 115
Sale of stand-alone commercial premises	539	255
Sale of parking places	863	451
Sale of construction materials	225	194
Rental revenue	118	94
Other revenue	<u>950</u>	<u>611</u>
Total revenues	<u>20,316</u>	<u>20,193</u>

8 Construction contracts

mln RUB	<u>2010</u>	<u>2009</u>
Revenue recognised during the period	1,203	1,686
Costs incurred	<u>(965)</u>	<u>(1,545)</u>
Recognised profits during the period	<u>238</u>	<u>141</u>
For contracts in progress — aggregate amount of costs incurred and recognised profits to date	955	1 555
Unbilled receivables	8	21
Billings in excess of work completed	119	219
Advances for which the related work has not started	99	181
Retentions relating to construction contracts	25	21

Revenue recognised during the period 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).

For contracts whose total costs to complete could not be estimated reliably, contract revenue was recognised to the extent of contract costs incurred, until the date when the contracts were completed, at which time revenue was recognized in full as specified in those contracts.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

9 General and administrative expenses

mln RUB	<u>2010</u>	<u>2009</u>
Payroll and related taxes	1,433	1,025
Audit and consulting services	123	42
Services	104	169
Repair and maintenance	92	18
Materials	31	22
Bank fees and commissions	16	45
Social expenses	3	9
Other	<u>245</u>	<u>110</u>
Total	<u>2,047</u>	<u>1,440</u>

10 Other expenses, net

mln RUB	<u>2010</u>	<u>2009</u>
<i>Other income</i>		
Fees and penalties received	31	60
Gain on disposal of property, plant and equipment	<u>1</u>	<u>64</u>
	<u>32</u>	<u>124</u>
<i>Other expenses</i>		
Loss on disposal of subsidiaries	(12)	(5)
Other expenses	<u>(197)</u>	<u>(315)</u>
	<u>(209)</u>	<u>(320)</u>
Other expenses, net	<u>(177)</u>	<u>(196)</u>

11 Personnel costs

mln RUB	<u>2010</u>	<u>2009</u>
Wages and salaries	2,291	1,723
Contributions to State pension fund	<u>308</u>	<u>267</u>
	<u>2,599</u>	<u>1,990</u>

Personnel costs and related taxes included in cost of sales amounted to RUB 1 158 million (2009: RUB 962 million).

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

12 Finance income and finance costs

mln RUB	<u>2010</u>	<u>2009</u>
Recognised in profit or loss		
Finance income		
Allowance for doubtful accounts receivable	97	—
Interest income on bank deposits	89	67
Unwinding of discount on trade receivables	75	—
Gain on write-off of accounts payable	10	6
Gain on repurchase of CLNs	9	126
Interest income on loans and receivables	4	14
Interest income on promissory note	—	12
Finance income	<u>284</u>	<u>225</u>
Finance costs		
Interest expense on loans and finance leases	(602)	(759)
Net foreign exchange loss	(65)	(231)
Allowance for doubtful accounts receivable	—	(59)
Finance costs	<u>(667)</u>	<u>(1,049)</u>
Net finance costs recognised in profit or loss	<u>(383)</u>	<u>(824)</u>

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	<u>2010</u>	<u>2009</u>
Borrowing costs capitalised during the year	302	18
Weighted average capitalisation rate	12,50%	12,21%

13 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%).

mln RUB	<u>2010</u>	<u>2009</u>
Current tax expense		
Current year	1,309	770
Adjustment for prior years	—	12
	<u>1,309</u>	<u>782</u>
Deferred tax expense		
Origination and reversal of temporary differences	46	652
Income tax expense	<u>1,355</u>	<u>1,434</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2009: 20%):

mln RUB	<u>2010</u>	<u>2009</u>
Profit before tax	6,042	6,581
Theoretical income tax at statutory rate of 20°%	1,208	1,316
<i>Adjustments due to:</i>		
Expenses not deductible and income not taxable for tax purposes, net	149	125
Effect of different tax rates	<u>(2)</u>	<u>(7)</u>
Income tax expense	<u>1,355</u>	<u>1,434</u>

14 Property, plant and equipment

Depreciation expense of RUB 242 million (2009: RUB 180 million) has been charged to cost of goods sold, RUB 7 million (2009: RUB 25 million) to cost of real estate properties under construction, RUB 2 million (2009: RUB 3 million) to selling expenses and RUB 42 million (2009: RUB 25 million) to general and administrative expenses.

(a) Security

At 31 December 2010 properties with a carrying amount of RUB 88 million (2009: RUB 113 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 2010 the net book value of leased plant and machinery was RUB 288 million (2009: RUB 614 million). The leased equipment secures lease obligations.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

mln RUB	<u>Buildings and Constructions</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Other</u>	<u>Land</u>	<u>Construction in progress</u>	<u>Total</u>
Cost							
Balance at 1 January 2009 . . .	515	856	72	92	45	38	1,618
Additions	76	107	2	7	1	57	250
Acquired through business combinations	—	567	—	—	—	—	567
Disposals	(55)	(37)	(13)	(14)	(1)	(19)	(139)
Transfers	<u>12</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(12)</u>	<u>—</u>
Balance at 31 December 2009	<u>548</u>	<u>1,493</u>	<u>61</u>	<u>85</u>	<u>45</u>	<u>64</u>	<u>2,296</u>
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	<u>13</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>(14)</u>	<u>1</u>
Balance at 31 December 2010	<u>709</u>	<u>1,498</u>	<u>71</u>	<u>100</u>	<u>12</u>	<u>80</u>	<u>2,470</u>
Depreciation and impairment losses							
Balance at 1 January 2009 . . .	(161)	(252)	(28)	(54)	—	—	(495)
Depreciation for the year . . .	(49)	(158)	(10)	(16)	—	—	(233)
Disposals	<u>45</u>	<u>28</u>	<u>8</u>	<u>13</u>	<u>—</u>	<u>—</u>	<u>94</u>
Balance at 31 December 2009	<u>(165)</u>	<u>(382)</u>	<u>(30)</u>	<u>(57)</u>	<u>—</u>	<u>—</u>	<u>(634)</u>
Depreciation for the year . . .	(71)	(195)	(10)	(17)	—	—	(293)
Disposals	<u>66</u>	<u>43</u>	<u>4</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>117</u>
Balance at 31 December 2010	<u>(170)</u>	<u>(534)</u>	<u>(36)</u>	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>(810)</u>
Carrying amounts							
At 1 January 2009	<u>354</u>	<u>604</u>	<u>44</u>	<u>38</u>	<u>45</u>	<u>38</u>	<u>1,123</u>
At 31 December 2009	<u>383</u>	<u>1,111</u>	<u>31</u>	<u>28</u>	<u>45</u>	<u>64</u>	<u>1,662</u>
At 31 December 2010	<u>539</u>	<u>964</u>	<u>35</u>	<u>30</u>	<u>12</u>	<u>80</u>	<u>1,660</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

15 Other long-term investments

mln RUB	<u>2010</u>	<u>2009</u>
Loans, at amortised cost	33	23
Other	<u>6</u>	<u>10</u>
	<u>39</u>	<u>33</u>

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:

mln RUB	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Property, plant and equipment	45	139	(96)	(114)	(51)	25
Investments	20	2	—	—	20	2
Inventories	1,494	1,670	(19)	(165)	1,475	1,505
Trade and other receivables	77	186	(369)	(2,072)	(292)	(1,886)
Deferred expenses	9	19	—	—	9	19
Loans and borrowings	12	107	(17)	—	(5)	107
Provisions	—	—	(23)	(39)	(23)	(39)
Trade and other payables	227	532	(1,426)	(238)	(1,199)	294
Tax loss carry-forwards	94	74	—	—	94	74
Other	<u>248</u>	<u>188</u>	<u>(53)</u>	<u>(13)</u>	<u>195</u>	<u>175</u>
Tax assets/(liabilities)	2,226	2,917	(2,003)	(2,641)	223	276
Set off of tax	<u>(1,963)</u>	<u>(1,801)</u>	<u>1,963</u>	<u>1,801</u>	<u>—</u>	<u>—</u>
Net tax assets/(liabilities)	<u>263</u>	<u>1,116</u>	<u>(40)</u>	<u>(840)</u>	<u>223</u>	<u>276</u>

(b) *Unrecognised deferred tax liability*

At 31 December 2010 a deferred tax liability of RUB 562 million (2009: RUB 341 million) arising on temporary differences of RUB 11 248 million (2009: RUB 6 818 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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(c) Movement in temporary differences during the year

mln RUB	<u>1 January 2010</u>	<u>Recognised in profit or loss</u>	<u>Acquired/ disposed of</u>	<u>31 December 2010</u>
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
	<u>276</u>	<u>(46)</u>	<u>(7)</u>	<u>223</u>

mln RUB	<u>1 January 2009</u>	<u>Recognised in profit or loss</u>	<u>Acquired/ disposed of</u>	<u>31 December 2009</u>
Property, plant and equipment	68	29	(72)	25
Investments	141	(139)	—	2
Inventories	1,862	(358)	1	1,505
Trade and other receivables	(1,285)	(601)	—	(1,886)
Deferred expenses	40	(21)	—	19
Loans and borrowings	(68)	174	1	107
Provisions	(40)	1	—	(39)
Trade and other payables	202	59	33	294
Tax loss carry-forwards	3	14	57	74
Other	(15)	190	—	175
	<u>908</u>	<u>(652)</u>	<u>20</u>	<u>276</u>

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

17 Inventories

mln RUB	<u>2010</u>	<u>2009</u>
Own flats under construction	12,486	10,953
Own flats	7,082	8,875
Built-in and stand-alone premises under construction	4,129	4,785
Built-in premises	2,484	2,706
Construction materials	297	182
Other	<u>92</u>	<u>46</u>
	26,570	27,547
Less: Allowance for obsolete inventory	<u>(919)</u>	<u>(829)</u>
Total	<u>25,651</u>	<u>26,718</u>

In 2008 the Group acquired a land plot for construction in the Moscow region. The acquisition was partly paid in cash with the remaining (in the amount of RUB 2 252 million) to be settled by future transfer of real estate properties upon completion of their construction. The amount, which remains to be settled, is recognised within trade accounts payable as at 31 December 2010 and 31 December 2009.

The following is movement in the allowance for obsolete inventory:

mln RUB	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	829	764
Change in allowance for obsolete inventory	<u>90</u>	<u>65</u>
Balance at end of the year	<u>919</u>	<u>829</u>

The amount of allowance of RUB 894 million (2009: RUB 824 million) relates to 3 items of stand-alone commercial properties under construction (included into the line “Built-in premises under construction” in this note). The allowance was calculated as follows.

At 31 December 2010 the Group has provided in full for the land lease and other infrastructure payments that were capitalised into the costs of construction of 2 items of stand-alone commercial properties since those properties are not expected to be completed, resulting in allowance of RUB 457 million (2009: RUB 387 million).

The recoverable amount of the third item of stand-alone commercial property, 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 2010 the gross value of the property item equals to RUB 891 million (2009: RUB 862 million), while recognised allowance amounts to RUB 437 million (2009: RUB 437 million).

The Group has temporarily rented out part of certain items of property classified as inventory in these consolidated financial statements. The total carrying value of these items of property was RUB 855 million as at 31 December 2010 (2009: RUB 1 443 million). The Group actively seeks for the buyer for these properties.

Inventories with a carrying amount of RUB 100 million (2009: RUB 1 508 million) are pledged as security for borrowings, see note 23.

During 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

18 Trade and other receivables

mln RUB	<u>2010</u>	<u>2009</u>
<i>Long-term</i>		
Trade receivables	560	642
Trade receivables due from related parties	—	29
Advances paid to suppliers	274	125
Other receivables	<u>70</u>	<u>10</u>
	<u>904</u>	<u>806</u>
<i>Short-term</i>		
Advances paid to suppliers	1,669	1,269
VAT recoverable	1,111	1,226
Trade receivables	966	825
Trade receivables due from related parties	101	74
Income tax receivable	56	92
Unbilled receivables	8	21
Other receivables due from related parties	6	48
Other taxes receivable	8	9
Other receivables	<u>161</u>	<u>531</u>
	<u>4,086</u>	<u>4,095</u>
Less: Allowance for doubtful accounts receivable	(122)	(219)
Short-term less allowance	<u>3,964</u>	<u>3,876</u>
Total	<u>4,868</u>	<u>4,682</u>

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	<u>2010</u>	<u>2009</u>
Bank deposits (91-360 days)	277	—
Other	<u>64</u>	<u>27</u>
	<u>341</u>	<u>27</u>

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

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

20 Cash and cash equivalents

mln RUB	<u>2010</u>	<u>2009</u>
Cash in banks, in RUB	376	492
Cash in banks, in USD	149	21
Cash in banks, in EUR	169	—
Cash in transit	29	17
Petty cash	3	4
Short-term deposits (less than 90 days)	<u>2,910</u>	<u>2,882</u>
Cash and cash equivalents in the statement of financial position	<u>3,636</u>	<u>3,416</u>
Cash and cash equivalents in the statement of cash flows	<u>3,636</u>	<u>3,416</u>

The Group keeps major bank balances in the following Russian banks — Bank St. Petersburg, Sberbank, Rosbank, Alfa Bank and in the Cyprus Hellenic bank.

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

	<u>Ordinary shares</u>	
	<u>2010</u>	<u>2009</u>
Authorised shares at beginning of year	1,117,647	1,117,647
Par value	0.01 GBP	0.01 GBP
On issue at beginning of year	<u>1,117,647</u>	<u>1,117,647</u>
On issue at end of year, fully paid	<u>1,117,647</u>	<u>1,117,647</u>

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

(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 31 December 2010 the total of subsidiaries' retained earnings, including the profits for the current year were RUB 11 028 million (2009: RUB 6 632 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

Number of shares unless otherwise stated

	2010	2009
Issued shares at 1 January	1,117,647	1,117,647
Weighted average number of shares for the year ended 31 December.	1,117,647	1,117,647

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	2010	2009
<i>Non-current liabilities</i>		
Secured bank loans	374	250
Unsecured bank loans	4,084	208
Secured loans from other parties	—	928
Unsecured bond issues	2,244	1,186
	6,702	2,572
<i>Current liabilities</i>		
Current portion of secured bank loans	49	278
Current portion of unsecured bank loans	—	1 756
Current portion of secured loans from other parties	7	232
Current portion of unsecured bond issues	1,368	1,006
	1,424	3,272

On 15 November 2010 the Group has issued 114 thousand loan participation notes (LPN) for the total amount of RUB 3 543 million (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).

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan				423	423	528	528
Secured bank loan	USD	14.00%	2010	—	—	73	73
Secured bank loan	USD	12.00%	2010	—	—	139	139
Secured bank loan	USD	11.60%	2010	—	—	316	316
Secured bank loan	USD	12.50%	2011	49	49	—	—
Secured bank loan	EUR	EURIBOR+7.00%	2014	374	374	—	—
Unsecured bank loan				4,143	4,084	1,983	1,964
Unsecured bank loan	USD	9.75%, 12.00%	2010	—	—	748	729
Unsecured bank loan	USD	10.50%	2010	—	—	194	194
Unsecured bank loan	RUB	9.90%	2014	600	600	—	—
Unsecured bank loan	USD	12.00%, 13.00%, 14.00%	2010	—	—	1,041	1,041
Unsecured bank loan	USD	9.75%	2015	3,543	3,484	—	—
Secured loans from other parties				7	7	1,160	1,160
Secured loan from other party . . .	USD	18.11%	2010	—	—	669	669
Secured loan from other party . . .	USD	18.72%	2010	—	—	430	430
Secured loan from other party . . .	RUB	0.50%	2011	7	7	—	—
Secured loan from other party . . .	USD	19.19%	2010	—	—	61	61
Unsecured bond issues				3,638	3,612	2,217	2,192
Unsecured bonds	RUB	11.69%, 11.44%, 11.19%, 10.94%, 11.75%	2010	—	—	610	610
Unsecured bonds	RUB	16.00%	2012	1,609	1,595	1,607	1,582
Unsecured bonds	RUB	14.50%	2013	2,029	2,017	—	—
				<u>8,211</u>	<u>8,126</u>	<u>5,888</u>	<u>5,844</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

Bank loans are secured by:

- buildings with a carrying amount of RUB 88 million, see note 14.
- inventory with a carrying amount of RUB 100 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.

In 2010 the Group has offset financial assets (LPNs) and liabilities (loans) which were receivable from and payable to the same party in the amount of RUB 1 085 million in the statement of financial position. The Group has a legal right to offset the amounts and will realise the asset and settle the liability simultaneously.

24 Provisions

mln RUB	<u>Warranties</u>	<u>Provision for deferred works</u>	<u>Total</u>
Balance at 1 January 2009	77	1,509	1,586
Provisions made during the year	18	2,144	2,162
Provisions used during the year	(12)	(1,730)	(1,742)
Balance at 31 December 2009	83	1,923	2,006
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
Non-current	81	—	81
Current	—	1,189	1,189
	81	1,189	1,270

(a) 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 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

25 Trade and other payables

mln RUB	<u>2010</u>	<u>2009</u>
<i>Long-term</i>		
Advances from customers	74	—
Finance lease liabilities	44	346
Trade payables	61	31
Other payables	<u>82</u>	<u>5</u>
	<u>261</u>	<u>382</u>
<i>Short-term</i>		
Advances from customers	11,914	17,869
Trade payables	841	1 013
Billings in excess of work completed	119	219
Payroll liabilities	245	176
Income tax payable	367	175
VAT payable	427	226
Finance lease liabilities	84	139
Other taxes payable	72	81
Other payables	<u>215</u>	<u>660</u>
	<u>14,284</u>	<u>20,558</u>
Total	<u>14,545</u>	<u>20,940</u>

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	<u>2010</u>			<u>2009</u>		
	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	91	7	84	177	38	139
Between one and five years	<u>45</u>	<u>1</u>	<u>44</u>	<u>378</u>	<u>32</u>	<u>346</u>
	<u>136</u>	<u>8</u>	<u>128</u>	<u>555</u>	<u>70</u>	<u>485</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

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

<u>mln RUB</u> <u>Currency</u>	<u>Nominal</u> <u>interest rate</u>	<u>Year of</u> <u>maturity</u>	<u>2010</u>		<u>2009</u>	
			<u>Face value</u>	<u>Carrying amount</u>	<u>Face value</u>	<u>Carrying amount</u>
EUR	8,79 - 9,77%	2012 - 2013	124	124	432	432
USD	24.76%	2012	—	—	50	50
RUB	17.71%	2010 - 2012	4	4	3	3
			<u>128</u>	<u>128</u>	<u>485</u>	<u>485</u>

26 Financial instruments and risk management

(a) Overview

The Group's financial instruments as at 31 December 2010, 31 December 2009 are categorized as follows:

<u>mln RUB</u>	<u>2010</u>	<u>2009</u>
Financial assets at amortized cost		
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	2,124	2,011
Cash and cash equivalents	3,636	3,416
	<u>5,760</u>	<u>5,427</u>
Financial liabilities at amortized costs	<u>21,805</u>	<u>26,302</u>

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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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 2010 (2009: 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 2010 the Group had not provided any financial guarantees to entities outside the Group (2009: 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:

mln RUB	Carrying amount	
	2010	2009
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	2,124	2,011
Cash and cash equivalents	3,636	3,416
	5,760	5,427

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”.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

Impairment losses

The aging of trade receivables at the reporting date was:

mln RUB	<u>Gross 2010</u>	<u>Impairment 2010</u>	<u>Gross 2009</u>	<u>Impairment 2009</u>
Not past due	1,147	1	1,383	4
Past due 0-30 days	104	—	33	—
Past due 31-120 days	122	—	31	1
Past due more than 120 days	<u>254</u>	<u>32</u>	<u>123</u>	<u>37</u>
	<u>1,627</u>	<u>33</u>	<u>1,570</u>	<u>42</u>

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

mln RUB	<u>2010</u>	<u>2009</u>
Balance at beginning of the year	42	27
Increase during the year	20	38
Write-offs	(2)	(7)
Decrease due to reversal	<u>(27)</u>	<u>(16)</u>
Balance at end of the year	<u>33</u>	<u>42</u>

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

mln RUB	<u>2010</u>	<u>2009</u>
Balance at beginning of the year	177	133
Increase during the year	52	112
Write-offs	(8)	(8)
Decrease due to reversal	<u>(132)</u>	<u>(60)</u>
Balance at end of the year	<u>89</u>	<u>177</u>

(c) Liquidity risk

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

Each year the Group prepares cash flow budget to forecast possible liquidity deficits and to define the sources of financing of those deficits.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

Contractual maturities of financial liabilities were as follows:

mln RUB	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0-6 mths</u>	<u>6-12 mths</u>	<u>1-2 yrs</u>	<u>2-3 yrs</u>	<u>3-4 yrs</u>	<u>4-5 yrs</u>	<u>Over 5 yrs</u>
2010									
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)	<u>13,551</u>	<u>13,551</u>	<u>13,154</u>	<u>181</u>	<u>185</u>	<u>28</u>	<u>—</u>	<u>3</u>	<u>—</u>
	<u>21,805</u>	<u>24,432</u>	<u>14,324</u>	<u>1,472</u>	<u>2,741</u>	<u>2,320</u>	<u>2,412</u>	<u>1,163</u>	<u>—</u>
mln RUB	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0-6 mths</u>	<u>6-12 mths</u>	<u>1-2 yrs</u>	<u>2-3 yrs</u>	<u>3-4 yrs</u>	<u>4-5 yrs</u>	<u>Over 5 yrs</u>
2009									
Non-derivative financial liabilities									
Secured bank loans	528	598	131	195	223	49	—	—	—
Unsecured bank loans	1,964	2,101	1,147	744	210	—	—	—	—
Secured loans from other parties . . .	1,160	1,641	228	177	367	328	290	251	—
Unsecured bond issues	2,192	2,715	736	446	817	716	—	—	—
Finance lease liabilities	485	555	91	86	204	162	12	—	—
Trade and other payables (excluding taxes payable)	<u>19,973</u>	<u>19,973</u>	<u>19,889</u>	<u>48</u>	<u>36</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>26,302</u>	<u>27,583</u>	<u>22,222</u>	<u>1,696</u>	<u>1,857</u>	<u>1,255</u>	<u>302</u>	<u>251</u>	<u>—</u>

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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	<u>USD- denominated 2010</u>	<u>Euro- denominated 2010</u>	<u>USD- denominated 2009</u>	<u>EUR- denominated 2009</u>
Cash and cash equivalents	1,502	385	106	590
Loans and borrowings	(3,533)	(374)	(3,652)	—
Finance lease liabilities	—	(124)	(50)	(432)
Gross exposure	<u>(2,031)</u>	<u>(113)</u>	<u>(3,596)</u>	<u>158</u>

The following significant exchange rates applied during the year:

mln RUB	<u>Average rate</u>		<u>Reporting date spot rate</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
USD 1	30.38	31.77	30.48	30.24
EUR 1	40.22	44.34	40.33	43.39
GBP 1	46.93	49.65	47.26	48.04

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 2009, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

mln RUB	<u>Equity</u>	<u>Profit or loss</u>
2010		
USD (10% strengthening)	(203)	(203)
EUR (10% strengthening)	<u>(11)</u>	<u>(11)</u>
	(214)	(214)
2009		
USD (10% strengthening)	(360)	(360)
EUR (10% strengthening)	<u>16</u>	<u>16</u>
	(344)	(344)

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	<u>Carrying amount</u>	
	<u>2010</u>	<u>2009</u>
Fixed rate instruments		
Financial assets	4,028	4,030
Financial liabilities	<u>(7,880)</u>	<u>(6,329)</u>
	(3,852)	(2,299)
Variable rate instruments		
Financial liabilities	<u>(374)</u>	<u>—</u>
	(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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

mln RUB	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2010				
Variable rate instruments	(4)	4	(4)	4
Cash flow sensitivity (net)	(4)	4	(4)	4
2009				
Variable rate instruments	=	=	=	=
Cash flow sensitivity (net)	=	=	=	=

(e) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

mln RUB	Notes	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Assets carried at amortised cost					
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	18.15	2,124	2,124	2,011	2,011
Cash and cash equivalents	20	3,636	3,636	3,416	3,416
		5,760	5,760	5,427	5,427
Liabilities carried at amortised cost					
Secured bank loans	23	423	423	528	528
Unsecured bank loans	23	4,084	4,084	1,964	1,964
Secured loans from other parties	23	7	7	1,160	1,160
Unsecured bond issues	23	3,612	3,612	2,192	2,192
Trade and other payables	25	13,679	13,679	20,458	20,458
		21,805	21,805	26,302	26,302

The basis for determining fair values is disclosed in note 4.

Management believes that the fair values of its financial assets and liabilities approximates 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:

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

mln RUB	<u>2010</u>	<u>2009</u>
Total borrowings	8,126	5,844
Less: cash and cash equivalents	<u>(3,636)</u>	<u>(3,416)</u>
Net debt	<u>4,490</u>	<u>2,428</u>
Total equity	<u>12,568</u>	<u>8,051</u>
Debt to capital ratio at 31 December	<u>0,36</u>	<u>0,30</u>

Finance lease liabilities (RUB 128 million at 31 December 2010, RUB 485 million at 31 December 2009) are not included in the total amount of borrowings.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	<u>2010</u>	<u>2009</u>
Less than one year.	75	134
Between one and five years	144	87
More than five years	<u>44</u>	<u>16</u>
	<u>263</u>	<u>237</u>

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 2010 an amount of RUB 33 million (2009: RUB 60 million) was recognised as an expense in the statement of comprehensive income in respect of operating leases, while RUB 61 million (2009: RUB 68 million) were capitalized into the cost of residential and commercial premises under construction.

28 Capital commitments

As at 31 December 2010 the Group does not have any capital commitments (2009: 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.

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(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) Control relationships

The ultimate beneficiary shareholders of the Group are members of the family of Mr. Viacheslav Zarenkov, who owned 63.2% of the Group's shares at 31 December 2010 (2009: 67%).

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(b) Transactions with management and close family members

(i) Management remuneration

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

mln RUB	<u>2010</u>	<u>2009</u>
Salaries and bonuses	157	109
Benefits in kind	—	2
	<u>157</u>	<u>111</u>

(ii) Other transactions

Sales to key management personnel are disclosed below:

mln RUB	<u>Transaction value</u>		<u>Outstanding balance</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Sale of apartments and premises	72	60	—	—
	<u>72</u>	<u>60</u>	—	—

(c) Transactions with other related parties

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

(i) Revenue

mln RUB	<u>Transaction value</u>		<u>Outstanding balance</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Other related parties	41	79	40	149
Equity accounted investees	38	3	97	2
	<u>79</u>	<u>82</u>	<u>137</u>	<u>151</u>

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

(ii) Expenses

mln RUB	<u>Transaction value</u>		<u>Outstanding balance</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Other related parties	34	43	8	45
Equity accounted investees	21	83	5	17
	<u>55</u>	<u>126</u>	<u>13</u>	<u>62</u>

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

Etalon Group Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 — (Continued)

(iii) *Loans*

mln RUB	Amount loaned		Outstanding balance	
	2010	2009	2010	2009
Loans given:				
Equity accounted investees	10	262	10	—
Other related parties	6	6	4	4
	16	268	14	4

Loans bear interest rates ranging from 0% to 17% per annum (2009: 0% to 17%).

In May 2010 Vyacheslav A. Zarenkov has sold his 20% shareholdings in subsidiary CJSC “ZSM “Etalon” to CJSC “SSMO LenSpetsSMU” for the consideration of RUB 91 million.

31 Group entities

Significant subsidiaries

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
CJSC “UK Etalon”	Russian Federation	99.50%	99.50%
CJSC “SSMO LenSpetsSMU”	Russian Federation	98.01%	98.01%
CJSC “SPb MFTC”	Russian Federation	88.64%	88.64%
CJSC “TSUN LenSpetsSMU”	Russian Federation	98.90%	98.90%
CJSC “Aktiv”	Russian Federation	98.01%	98.01%
CJSC “Novator”	Russian Federation	89.40%	89.40%
CJSC “LenSpetsSM-Rekonstruktsiya”	Russian Federation	79.23%	79.23%

As of 31 December 2010 the Group controlled 83 legal entities (31 December 2009: 77). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

In 2010 and 2009 a number of subsidiaries were consolidated based on management contracts with CJSC “UK Etalon” being the Russian subholding company of the Group. Management contracts give CJSC “UK Etalon” the power to govern the financial and operating policies of those subsidiaries and to obtain benefits from their activities.

The Group has established a number of special purpose entities (SPEs) for holding of land plots and trading purposes that are also consolidated. SPEs established for trading purposes are cooperatives of owners of housing and commercial premises in which the customers acquire shares in order to obtain ownership rights for those premises.

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 2010 for the total amount of RUB 120 million.

In February 2011 the Group has obtained additional tranche of loan for the total amount of RUB 545 million with interest rate of EURIBOR+7% and repayable at 2014.

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Etalon Limited
Consolidated Financial Statements
For the years ended 31 December 2009 and 2008

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DIRECTORS' REPORT

Principal activity

The Group's principal activity is residential development in Saint-Petersburg and Moscow regions.

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.

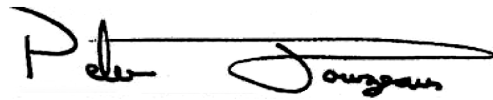
In preparing these consolidated financial statements, the directors are required to:

- 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.



Peter Touzeau
Director



Anton Evdokimov
Director

Independent auditor's report to the members of Etalon Limited

We have audited the Group financial statements (the "financial statements") of Etalon Limited (the "Company") which comprise the Consolidated Statements of Financial Position as at 31 December 2009, 31 December 2008 and 1 January 2008, and the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Equity, the Consolidated Statements of Cashflows for the years ended 31 December 2009 and 31 December 2008 and the related notes.

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 Financial Statements

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

Auditors' Responsibility

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

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

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with International Financial Reporting Standards and comply with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's consolidated financial position as at 31 December 2009, 31 December 2008 and 1 January 2008, and of its consolidated financial performance and its consolidated cash flows for the years ended 31 December 2009 and 31 December 2008;
- are in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants
23 December 2010

Etalon Limited

Consolidated Statement of Comprehensive Income for the years ended 31 December 2009 and 2008

mln RUR	Notes	<u>2009</u>	<u>2008</u>
Revenue	7	20,193	14,269
Cost of sales		<u>(11,023)</u>	<u>(9,161)</u>
Gross profit		9,170	5,108
General and administrative expenses	9	(1,440)	(1,541)
Selling expenses		(131)	(451)
Other expenses, net	10	<u>(196)</u>	<u>(149)</u>
Results from operating activities		<u>7,403</u>	<u>2,967</u>
Finance income	12	225	174
Finance costs	12	<u>(1,049)</u>	<u>(1,257)</u>
Net finance costs		<u>(824)</u>	<u>(1,083)</u>
Share of profit of equity accounted investees (net of income tax)		<u>2</u>	<u>4</u>
Profit before income tax		6,581	1,888
Income tax expense	13	<u>(1,434)</u>	<u>(715)</u>
Profit for the year		<u>5,147</u>	<u>1,173</u>
Total comprehensive income for the year		<u>5,147</u>	<u>1,173</u>
Profit attributable to:			
Owners of the Company		4,936	776
Non-controlling interest		<u>211</u>	<u>397</u>
Profit for the year		<u>5,147</u>	<u>1,173</u>
Total comprehensive income attributable to:			
Owners of the Company		4,936	776
Non-controlling interest		<u>211</u>	<u>397</u>
Total comprehensive income for the year		<u>5,147</u>	<u>1,173</u>
Earnings per share			
Basic and diluted earnings per share (thousand of RUR)	22	<u>4.42</u>	<u>0.71</u>

These consolidated financial statements were approved by the Board of Directors on 22 December 2010 and were signed on its behalf by:



Peter Touzeau
Director



Anton Evdokimov
Director

The consolidated statement of comprehensive income to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-65 to F-101.

Etalon Limited

Consolidated Statement of Financial Position as at 31 December 2009 and 2008

mln RUR	Notes	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
ASSETS				
Non-current assets				
Property, plant and equipment	14	1,662	1,123	889
Other long-term investments	16	33	78	61
Trade and other receivables	19	806	593	498
Deferred tax assets	17	1,116	1,188	1,054
Other non-current assets		<u>3</u>	<u>34</u>	<u>109</u>
Total non-current assets		<u>3,620</u>	<u>3,016</u>	<u>2,611</u>
Current assets				
Inventories	18	26,718	29,269	15,635
Trade and other receivables	19	3,876	3,297	2,321
Short-term investments		27	33	19
Cash and cash equivalents	20	3,416	2,378	919
Other current assets		<u>24</u>	<u>7</u>	<u>13</u>
Total current assets		<u>34,061</u>	<u>34,984</u>	<u>18,907</u>
Total assets		<u>37,681</u>	<u>38,000</u>	<u>21,518</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	21	1	1	1
Share premium		1,951	1,951	—
Retained earnings		<u>5,325</u>	<u>397</u>	<u>(416)</u>
Total equity attributable to equity holders of the Company		<u>7,277</u>	<u>2,349</u>	<u>(415)</u>
Non-controlling interest		<u>774</u>	<u>593</u>	<u>269</u>
Total equity		<u>8,051</u>	<u>2,942</u>	<u>(146)</u>
Non-current liabilities				
Long-term debt	23	2,572	1,867	4,678
Long-term trade and other payables	25	382	52	64
Provisions	24	83	77	72
Deferred tax liabilities	17	<u>840</u>	<u>280</u>	<u>101</u>
Total non-current liabilities		<u>3,877</u>	<u>2,276</u>	<u>4,915</u>
Current liabilities				
Loans and borrowings	23	3,272	4,869	1,866
Trade and other payables	25	20,558	26,404	14,568
Provisions	24	<u>1,923</u>	<u>1,509</u>	<u>315</u>
Total current liabilities		<u>25,753</u>	<u>32,782</u>	<u>16,749</u>
Total equity and liabilities		<u>37,681</u>	<u>38,000</u>	<u>21,518</u>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-65 to F-101.

Etalon Limited

Consolidated Statement of Changes in Equity for the years ended 31 December 2009 and 2008

mln RUR	Attributable to equity holders of the Company			Non-controlling interest	Total equity	
	Share capital	Share premium	Retained earnings			Total
Balance at 1 January 2008	<u>1</u>	<u>—</u>	<u>(416)</u>	<u>(415)</u>	<u>269</u>	<u>(146)</u>
Total comprehensive income for the year						
Profit for the year	<u>—</u>	<u>—</u>	<u>776</u>	<u>776</u>	<u>397</u>	<u>1,173</u>
Other comprehensive income						
Total other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>776</u>	<u>776</u>	<u>397</u>	<u>1,173</u>
Transactions with owners, recorded directly in equity						
Dividends to equity holders	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(27)</u>	<u>(27)</u>
Shares issued.	<u>—</u>	<u>1,951</u>	<u>—</u>	<u>1,951</u>	<u>—</u>	<u>1,951</u>
Restructuring, see note 21	<u>—</u>	<u>—</u>	<u>(14)</u>	<u>(14)</u>	<u>14</u>	<u>—</u>
Total contributions by and distributions to owners.	<u>—</u>	<u>1,951</u>	<u>(14)</u>	<u>1,937</u>	<u>(13)</u>	<u>1,924</u>
Changes in ownership interests in subsidiaries that do not result in a loss of control						
Acquisition of non-controlling interest	<u>—</u>	<u>—</u>	<u>51</u>	<u>51</u>	<u>(60)</u>	<u>(9)</u>
Total transactions with owners	<u>—</u>	<u>1,951</u>	<u>37</u>	<u>1,988</u>	<u>(73)</u>	<u>1,915</u>
Balance at 31 December 2008	<u>1</u>	<u>1,951</u>	<u>397</u>	<u>2,349</u>	<u>593</u>	<u>2,942</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-65 to F-101.

Etalon Limited

**Consolidated Statement of Changes in Equity for the years ended 31 December 2009 and 2008 —
(Continued)**

mln RUR	Attributable to equity holders of the Company			Non-controlling interest	Total equity	
	Share capital	Share premium	Retained earnings			Total
Balance at 1 January 2009	<u>1</u>	<u>1,951</u>	<u>397</u>	<u>2,349</u>	<u>593</u>	<u>2,942</u>
Total comprehensive income for the year						
Profit for the year	—	—	<u>4,936</u>	<u>4,936</u>	<u>211</u>	<u>5,147</u>
Other comprehensive income						
Total other comprehensive income	—	—	—	—	—	—
Total comprehensive income for the year	—	—	<u>4,936</u>	<u>4,936</u>	<u>211</u>	<u>5,147</u>
Transactions with owners, recorded directly in equity						
Dividends to equity holders	—	—	—	—	<u>(38)</u>	<u>(38)</u>
Total contributions by and distributions to owners	—	—	—	—	<u>(38)</u>	<u>(38)</u>
Changes in ownership interests in subsidiaries that do not result in a loss of control						
Changes in ownership interest in subsidiary	—	—	<u>(8)</u>	<u>(8)</u>	<u>8</u>	—
Total transactions with owners	—	—	<u>(8)</u>	<u>(8)</u>	<u>(30)</u>	<u>(38)</u>
Balance at 31 December 2009	<u>1</u>	<u>1,951</u>	<u>5,325</u>	<u>7,277</u>	<u>774</u>	<u>8,051</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-65 to F-101.

Etalon Limited

Consolidated Statement of Cash Flows for the years ended 31 December 2009 and 2008

mln RUR	Notes	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES:			
Profit for the year		5,147	1,173
<i>Adjustments for:</i>			
Depreciation and amortisation	14	208	191
(Gain)/loss on disposal of property, plant and equipment		(64)	6
Share of profit of equity accounted investees	15	(2)	(4)
Finance cost, net	12	771	1,117
Impairment losses on loans given		75	50
Income tax expense		<u>1,434</u>	<u>715</u>
Cash from operating activities before changes in working capital and provisions		7,569	3,248
Change in inventories	18	2,594	(13,181)
Change in accounts receivable	19	(826)	(1,061)
Change in accounts payable	25	(6,233)	11,845
Change in provisions	24	420	1,199
Change in other current assets		(15)	1
Income tax paid		(504)	(686)
Interest paid		<u>(825)</u>	<u>(706)</u>
Net cash provided by operating activities		<u>2,180</u>	<u>659</u>
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		109	47
Interest received		199	87
Acquisition of property, plant and equipment	14	(221)	(446)
Loans given		(266)	(84)
Loans repaid		7	18
Acquisition of subsidiaries, net of cash acquired		<u>17</u>	<u>—</u>
Net cash used in investing activities		<u>(155)</u>	<u>(378)</u>
FINANCING ACTIVITIES:			
Proceeds from issue of share capital		—	1,951
Acquisition of non-controlling interest		—	(11)
Proceeds from borrowings		8,649	7,047
Repayments of borrowings		(9,638)	(7,823)
Dividends paid		<u>(32)</u>	<u>(21)</u>
Net cash (used in)/from financing activities		<u>(1,021)</u>	<u>1,143</u>
Net increase in cash and cash equivalents		1,004	1,424
Cash and cash equivalents at beginning of year		2,378	919
Effect of exchange rate fluctuations on cash and cash equivalents		<u>34</u>	<u>35</u>
Cash and cash equivalents at end of year	20	<u>3,416</u>	<u>2,378</u>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-65 to F-101.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008

1 Background

(a) Organisation and operations

Etalon Limited (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 and Moscow regions.

The ultimate beneficiary shareholders of the Group are members of the family of Mr. Viacheslav Zarenkov, who owned 67% of the Company’s shares at 31 December 2009 and 1 January 2009 (1 January 2008: 79%).

Related party transactions are disclosed in note 30.

(b) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These 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”). The financial statements of the Company and its subsidiaries show a true and fair view and are in compliance with the Companies (Guernsey) Law, 2008. These are the Group’s first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

The Group has not prepared consolidated financial statements in accordance with Russian accounting principles. Accordingly, no reconciliation between the consolidated IFRS financial statements and financial statements prepared in accordance with Russian accounting principles has been prepared.

(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 (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest million.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(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 23 — credit linked notes (CLNs);
- Note 24 — Provisions;
- Note 31 — Special Purpose Entities (SPEs);
- Note 18 — inventory obsolescence provisions;
- Note 29 — contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening consolidated IFRS statement of financial position as at 1 January 2008 for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after 1 January 2008

For acquisitions on or after 1 January 2008, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to 1 January 2008

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2008. In respect of acquisitions prior to 1 January 2008, the Group measures goodwill as the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

(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.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(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.

(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.

(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) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group’s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(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. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

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 RUR — 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. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial 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 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in debt securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within debt in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(ii) Non-derivative financial liabilities

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

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

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

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

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

(d) Share capital

Ordinary shares

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

Repurchase of share capital

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(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 certain items of plant and equipment were revised in 2009 (see note 14).

(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, and intends to sell those properties within 1-2 years when the market environment for commercial real estate improves. 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 occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

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 balance sheet 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.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(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

The Group's subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to the consolidated statement of comprehensive income in the period to which they relate.

(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 estimate 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 defines the moment of transfer of risks and rewards as the date when the buyer signs the act of acceptance of the property. Before that, 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

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

the Group and the amount of revenue can be measured reliably. 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.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, 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, changes in the fair value of financial assets at fair value through profit or loss 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.

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 the following temporary differences: 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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.

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.

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(q) 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 2009, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces 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 is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amendment to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions* which clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements. Amendment will come into effect on 1 January 2010. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* which came into effect on 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. 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.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- 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 2010. 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) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(d) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, 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.

(e) 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 four 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.
- *Non-residential Development.* Includes construction of built-in and stand-alone premises for commercial use and parking places.
- *Construction services.* Includes construction services for third parties.
- *Other operations.* Include selling of construction materials and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

In the past segment information was prepared on an ad hoc basis and was not formalized. Currently, the new structure of the reporting for the future periods has been developed. Segment information for the years ended 31 December 2010 and 2009 has been recalculated according to the new structure and is presented below.

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(a) Information about reportable segments

mln RUR	Residential development		Construction services		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
External revenues	17,197	11,701	1,842	1,389	449	527	19,488	13,617
Inter-segment revenue	—	—	3,982	10,962	618	926	4,600	11,888
Total segment revenue	17,197	11,701	5,824	12,351	1,067	1,453	24,088	25,505
Gross margin	8,124	4,441	346	920	12	57	8,482	5,418
Reportable segment assets:								
inventory	25,856	28,599	172	284	1,664	1,979	27,692	30,862
Reportable segment liabilities:								
advances from customers	17,125	22,978	302	192	427	36	17,854	23,206

(b) Geographical information

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

mln RUR	Revenues		Non-current assets	
	2009	2008	2009	2008
St. Petersburg metropolitan area	19,698	14,269	2,723	2,972
Moscow metropolitan area	495	—	897	44
	20,193	14,269	3,620	3,016

Major customer

In 2009 and 2008 no customer represented more than 10% of the Group's total revenue.

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

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

mln RUR	<u>2009</u>	<u>2008</u>
Revenues		
Total revenue for reportable segments	24,088	25,505
Other revenue	705	652
Elimination of inter-segment revenue	<u>(4,600)</u>	<u>(11,888)</u>
Consolidated revenue	<u>20,193</u>	<u>14,269</u>
Profit or loss		
Gross margin for reportable segments	8,482	5,418
General and administrative expenses	(1,440)	(1,541)
Selling expenses	(131)	(451)
Other expenses, net	(196)	(149)
Finance income	225	174
Finance costs	(1,049)	(1,257)
Elimination of inter-segment margin	644	(311)
Other profit or loss	<u>44</u>	<u>1</u>
Share of profit of equity accounted investees	<u>2</u>	<u>4</u>
Consolidated profit before income tax	<u>6,581</u>	<u>1,888</u>
Assets		
Total assets for reportable segments: inventory	27,692	30,862
Elimination of unrealised gain	(1,020)	(1,664)
Other	<u>46</u>	<u>71</u>
Total inventories	<u>26,718</u>	<u>29,269</u>
Liabilities		
Total liabilities for reportable segments: advances from customers	17,854	23,206
Elimination of intersegment advances	(64)	(28)
Other unallocated amounts	<u>79</u>	<u>105</u>
Total advances from customers	<u>17,869</u>	<u>23,283</u>

Performance of the reporting segments is measured by the management based on gross margins 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 of subsidiaries and non-controlling interest

(a) Acquisition of subsidiary

On 18 December, 2009 the Group obtained control of LLC "Severnaya Vysota I K" — a company holding construction cranes under finance lease contracts — by acquiring 70% of the shares and voting interest in the company for a notional amount. As a result, the Group's equity interest in LLC "Severnaya Vysota I K" increased from 30% to 100%.

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

LLC “Severnaya Vysota I K” is loss-making and has suffered from financial difficulties. However, taking control of the company will enable the Group to reduce crane rent costs and safeguard access to cranes that are essential for construction process.

From the date of acquisition to 31 December 2009 LLC “Severnaya Vysota I K” did not contribute any material revenue and profit. The following summarizes the classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

The identifiable assets acquired and the liabilities assumed were as follows:

mln RUR	<u>Recognised fair values on acquisition</u>
Non-current assets	587
Property, plant and equipment	567
Deferred tax assets	20
Current assets	<u>89</u>
Inventories	1
Trade and other receivables	71
Cash and cash equivalents	17
Non-current liabilities	<u>(505)</u>
Loans and borrowings	(209)
Trade and other payables	(296)
Deferred tax liabilities	—
Current liabilities	<u>(171)</u>
Loans and borrowings	(28)
Trade and other payables	<u>(143)</u>
Net identifiable assets, liabilities and contingent liabilities	<u>—</u>
Net identifiable assets, liabilities and contingent liabilities acquired	<u>—</u>
Carrying amount of existing 30% investment in the company	—
Consideration paid	—
Cash acquired	<u>17</u>
Net cash inflow	<u>17</u>

(b) Changes in non-controlling interests

During the year ended 31 December 2008 the Group acquired additional interest in a number of subsidiaries from companies controlled by the Group ultimate controlling party and third parties. The Group recognised a decrease in non-controlling interest of RUR 60 million. Contribution from shareholders of RUR 55 million and distribution to shareholders of RUR 4 million was recognised directly in equity.

7 Revenue

mln RUR	<u>2009</u>	<u>2008</u>
Sale of flats	15,631	10,693
Construction services	1,842	1,389
Sale of commercial premises and parking places	1,821	1,008
Sale of construction materials	194	527
Rental revenue	94	105
Other revenue	<u>611</u>	<u>547</u>
Total revenues	<u>20,193</u>	<u>14,269</u>

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

8 Construction contracts

mln RUR	<u>2009</u>	<u>2008</u>
Revenue recognised during the period	1,686	1,088
Costs incurred	<u>(1,545)</u>	<u>(1,062)</u>
Recognised profits during the period	<u>141</u>	<u>26</u>
For contracts in progress — aggregate amount of costs incurred and recognised profits to date	1,555	873

mln RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Unbilled receivables	21	32	—
Billings in excess of work completed	219	78	29
Advances for which the related work has not started	181	133	63
Retentions relating to construction contracts	21	26	—

Unbilled receivables under construction contracts and retentions relating to construction contracts in progress are included into accounts receivable (see note 19).

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).

For contracts whose total costs to complete could not be estimated reliably, contract revenue was recognised to the extent of contract costs incurred, until the date when the contracts were completed, at which time revenue was recognized in full as specified in those contracts.

9 General and administrative expenses

mln RUR	<u>2009</u>	<u>2008</u>
Payroll and related taxes	1,025	1,210
Services	169	115
Bank fees and commissions	45	53
Audit and consulting services	42	24
Materials	22	15
Repair and maintenance	18	26
Social expenses	9	21
Other	<u>110</u>	<u>77</u>
Total	1,440	1,541

10 Other expenses, net

mln RUR	<u>2009</u>	<u>2008</u>
<i>Other income</i>		
Fees and penalties received	60	3
Gain on disposal of property, plant and equipment	64	8
	<u>124</u>	<u>11</u>
<i>Other expenses</i>		
Impairment of investments	—	(50)
Loss on disposal of subsidiaries	(5)	(4)
Other expenses	<u>(315)</u>	<u>(106)</u>
	<u>(320)</u>	<u>(160)</u>
Other expenses, net	<u>(196)</u>	<u>(149)</u>

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

11 Personnel costs

mln RUR	<u>2009</u>	<u>2008</u>
Wages and salaries	1,723	2,125
Contributions to State pension fund	<u>267</u>	<u>356</u>
	<u>1,990</u>	<u>2,481</u>

Personnel costs included in cost of sales amounted to RUR 962 million (2008: RUR 1,246 million).

12 Finance income and finance costs

mln RUR	<u>2009</u>	<u>2008</u>
Recognised in profit or loss		
Finance income		
Gain on repurchase of CLNs	126	71
Interest income on bank deposits	67	96
Interest income on loans and receivables	14	7
Interest income on promissory note	12	—
Gain on write-off of accounts payable	<u>6</u>	<u>—</u>
Finance income	<u>225</u>	<u>174</u>
Finance costs		
Interest expense on loans	(759)	(258)
Net foreign exchange loss	(231)	(965)
Allowance for doubtful accounts receivable	<u>(59)</u>	<u>(34)</u>
Finance costs	<u>(1,049)</u>	<u>(1,257)</u>
Net finance costs recognised in profit or loss	<u>(824)</u>	<u>(1,083)</u>

In addition to the borrowing costs recognised in the statement of comprehensive income, borrowing costs of RUR 18 million (2008: RUR 405 million) have been capitalised into the cost of real estate properties under construction, with a capitalisation rate of 12,21% (2008: 9,93%).

13 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%). Income tax rate for Russian companies was reduced to 20% with effect from 1 January 2009.

mln RUR	<u>2009</u>	<u>2008</u>
Current tax expense		
Current year	770	670
Adjustment for prior years	<u>12</u>	<u>—</u>
	<u>782</u>	<u>670</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>652</u>	<u>45</u>
Income tax expense	<u>1,434</u>	<u>715</u>

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2008: 24%):

mln RUR	<u>2009</u>	<u>2008</u>
Profit before tax	6,581	1,888
Theoretical income tax at statutory rate of 20% (2008: 24%)	1,316	453
<i>Adjustments due to:</i>		
Expenses not deductible and income not taxable for tax purposes, net	125	84
Effect of different tax rates	(7)	(3)
Reduction in tax rate	<u>—</u>	<u>181</u>
Income tax expense	<u>1,434</u>	<u>715</u>

14 Property, plant and equipment

Depreciation expense of RUR 180 million (2008: RUR 163 million) has been charged to cost of goods sold, RUR 25 million (2008: RUR 48 million) to cost of real estate properties under construction, RUR 3 million (2008: RUR 3 million) to selling expenses and RUR 25 million (2008: 25 million) to general and administrative expenses.

(a) Security

At 31 December 2009 properties with a carrying amount of RUR 113 million (2008: RUR 94 million, 1 January 2008: RUR 97 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 2009 the net book value of leased plant and machinery was RUR 614 million (2008: RUR 2 million). The leased equipment secures lease obligations.

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

mln RUR	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Other</u>	<u>Land</u>	<u>Construction in progress</u>	<u>Total</u>
Cost							
Balance at 1 January 2008 . . .	412	599	61	74	24	60	1,230
Additions	96	336	16	22	21	35	526
Disposals	(33)	(80)	(5)	(6)	—	(14)	(138)
Transfers	<u>40</u>	<u>1</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>(43)</u>	<u>—</u>
Balance at 31 December							
2008	<u>515</u>	<u>856</u>	<u>72</u>	<u>92</u>	<u>45</u>	<u>38</u>	1,618
Additions	76	107	2	7	1	57	250
Acquired through business combinations	—	567	—	—	—	—	567
Disposals	(55)	(37)	(13)	(14)	(1)	(19)	(139)
Transfers	<u>12</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(12)</u>	<u>—</u>
Balance at 31 December							
2009	<u>548</u>	<u>1,493</u>	<u>61</u>	<u>85</u>	<u>45</u>	<u>64</u>	2,296
Depreciation and impairment losses							
Balance at 1 January 2008 . . .	(106)	(168)	(21)	(46)	—	—	(341)
Depreciation for the year . . .	(80)	(135)	(10)	(14)	—	—	(239)
Disposals	<u>25</u>	<u>51</u>	<u>3</u>	<u>6</u>	<u>—</u>	<u>—</u>	85
Balance at 31 December							
2008	<u>(161)</u>	<u>(252)</u>	<u>(28)</u>	<u>(54)</u>	<u>—</u>	<u>—</u>	(495)
Depreciation for the year . . .	(49)	(158)	(10)	(16)	—	—	(233)
Disposals	<u>45</u>	<u>28</u>	<u>8</u>	<u>13</u>	<u>—</u>	<u>—</u>	94
Balance at 31 December							
2009	<u>(165)</u>	<u>(382)</u>	<u>(30)</u>	<u>(57)</u>	<u>—</u>	<u>—</u>	(634)
Carrying amounts							
At 1 January 2008	<u>306</u>	<u>431</u>	<u>40</u>	<u>28</u>	<u>24</u>	<u>60</u>	889
At 31 December 2008	<u>354</u>	<u>604</u>	<u>44</u>	<u>38</u>	<u>45</u>	<u>38</u>	1,123
At 31 December 2009	<u>383</u>	<u>1,111</u>	<u>31</u>	<u>28</u>	<u>45</u>	<u>64</u>	1,662

15 Equity accounted investees

The Group's share of profit in its equity accounted investees for the year was RUR 2 million (2008: RUR 4 million). The Group has not recognised losses relating to LLC "Severnaya Vysota I K" totalling RUR 22 million in 2008, since the Group has no obligation in respect of these losses.

In 2009 and 2008 the Group did not receive dividends from any of its equity accounted investees.

The following is summarised financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group as at and for the year ended 31 December 2008. The Company was acquired in 2009 and has become a subsidiary.

mln RUR	<u>Ownership</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Revenues</u>	<u>Profit/loss</u>
2008					
LLC "Severnaya Vysota I K"	30%	672	760	225	(72)
	<u>—</u>	<u>672</u>	<u>760</u>	<u>225</u>	<u>(72)</u>

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

16 Other long-term investments

mln RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Loans, at amortised cost	23	58	50
Other	<u>10</u>	<u>20</u>	<u>11</u>
	<u>33</u>	<u>78</u>	<u>61</u>

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

17 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

mln RUR	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Property, plant and equipment	139	89	(114)	(21)	25	68
Investments	2	141	—	—	2	141
Inventories	1,670	1,910	(165)	(48)	1,505	1,862
Trade and other receivables	186	34	(2,072)	(1,319)	(1,886)	(1,285)
Deferred expenses	19	40	—	—	19	40
Loans and borrowings	107	26	—	(94)	107	(68)
Provisions	—	—	(39)	(40)	(39)	(40)
Trade and other payables	532	329	(238)	(127)	294	202
Tax loss carry-forwards	74	3	—	—	74	3
Other	<u>188</u>	<u>1</u>	<u>(13)</u>	<u>(16)</u>	<u>175</u>	<u>(15)</u>
Tax assets /(liabilities)	2,917	2,573	(2,641)	(1,665)	276	908
Set off of tax	<u>(1,801)</u>	<u>(1,385)</u>	<u>1,801</u>	<u>1,385</u>	<u>—</u>	<u>—</u>
Net tax assets/(liabilities)	<u>1,116</u>	<u>1,188</u>	<u>(840)</u>	<u>(280)</u>	<u>276</u>	<u>908</u>

(b) Unrecognised deferred tax liability

At 31 December 2009 a deferred tax liability of RUR 341 million (2008: RUR 230 million, 1 January 2008: RUR 155 million) for temporary differences of RUR 6,818 million (2008: RUR 4,606 million, 1 January 2008: RUR 3,097 million) related to an investment in a subsidiary 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.

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(c) Movement in temporary differences during the year

mln RUR	<u>1 January 2009</u>	<u>Recognised in income</u>	<u>Acquired/ disposed of</u>	<u>31 December 2009</u>
Property, plant and equipment	68	29	(72)	25
Investments	141	(139)	—	2
Inventories	1,862	(358)	1	1,505
Trade and other receivables	(1,285)	(601)	—	(1,886)
Deferred expenses	40	(21)	—	19
Loans and borrowings	(68)	174	1	107
Trade and other payables	202	59	33	294
Provisions	(40)	1	—	(39)
Other items	(15)	190	—	175
Tax loss carry-forwards	<u>3</u>	<u>14</u>	<u>57</u>	<u>74</u>
	<u>908</u>	<u>(652)</u>	<u>20</u>	<u>276</u>

mln RUR	<u>1 January 2008</u>	<u>Recognised in income</u>	<u>Acquired/ disposed of</u>	<u>31 December 2008</u>
Property, plant and equipment	83	(15)	—	68
Investments	81	60	—	141
Inventories	1,184	678	—	1,862
Trade and other receivables	(643)	(642)	—	(1,285)
Deferred expenses	91	(51)	—	40
Loans and borrowings	(3)	(65)	—	(68)
Trade and other payables	179	23	—	202
Provisions	(23)	(17)	—	(40)
Other items	1	(16)	—	(15)
Tax loss carry-forwards	<u>3</u>	<u>—</u>	<u>—</u>	<u>3</u>
	<u>953</u>	<u>(45)</u>	<u>—</u>	<u>908</u>

18 Inventories

mln RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Own flats under construction	10,953	14,017	7,669
Own flats	8,875	7,646	3,967
Built-in and stand-alone premises under construction	4,785	6,817	3,071
Built-in premises	2,706	1,182	813
Construction materials	182	300	387
Other	<u>46</u>	<u>71</u>	<u>74</u>
	<u>27,547</u>	<u>30,033</u>	<u>15,981</u>
Less: Allowance for obsolete inventory	<u>(829)</u>	<u>(764)</u>	<u>(346)</u>
Total	<u>26,718</u>	<u>29,269</u>	<u>15,635</u>

In 2008 the Group acquired a land plot for construction in the Moscow region. The acquisition was partly paid in cash with the remaining (in the amount of RUR 2,252 million) to be settled by future transfer of real estate properties upon completion of their construction. The amount, which remains to be settled, is recognised within trade accounts payable.

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

The following is movement in the allowance for obsolete inventory:

mln RUR	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	764	346
Change in allowance for obsolete inventory	<u>65</u>	<u>418</u>
Balance at end of the year	<u>829</u>	<u>764</u>

The amount of allowance of RUR 824 million (2008: RUR 761 million, 1 January 2008: RUR 343 million) relates to 3 items of stand-alone commercial properties under construction (included into the line “Built-in and stand-alone premises under construction” in this note). The allowance was calculated as follows.

At 31 December 2009 the Group has provided in full for the costs of construction of 2 items of stand-alone properties (comprised of the capitalised lease and other infrastructure payments) since those properties are not expected to be completed, resulting in allowance of RUR 387 million (2008: RUR 323 million, 1 January 2008: RUR 161 million).

The recoverable amount of the third item of stand-alone commercial property, 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 2009 the gross value of the property item equals to RUR 862 million (2008: RUR 725 million, 1 January 2008: RUR 188 million), while recognised allowance amounts to RUR 437 million (2008: RUR 437 million, 1 January 2008: RUR 182 million). The management will consider reclassification of this item into investment property.

Inventories with a carrying amount of RUR 1,508 million (2008: nil, 1 January 2008: nil) are pledged as security for borrowings, see note 23.

19 Trade and other receivables

mln RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
<i>Long-term</i>			
Trade receivables	642	111	59
Trade receivables due from related parties	29	—	—
Advances paid to suppliers	125	478	417
Other receivables	<u>10</u>	<u>4</u>	<u>22</u>
	<u>806</u>	<u>593</u>	<u>498</u>
<i>Short-term</i>			
Advances paid to suppliers	1,269	1,352	1,116
VAT recoverable	1,226	590	242
Trade receivables	825	846	459
Trade receivables due from related parties	74	23	4
Other receivables due from related parties	48	47	100
Unbilled receivables	21	32	—
Income tax receivable	92	217	227
Non interest bearing promissory notes	—	54	70
Other taxes receivable	9	15	7
Other receivables	<u>531</u>	<u>281</u>	<u>222</u>
	<u>4,095</u>	<u>3,457</u>	<u>2,447</u>
Less: Allowance for doubtful accounts receivable	<u>(219)</u>	<u>(160)</u>	<u>(126)</u>
Short-term less allowance	<u>3,876</u>	<u>3,297</u>	<u>2,321</u>
Total	<u>4,682</u>	<u>3,890</u>	<u>2,819</u>

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

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 RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Cash in banks, in RUB	492	315	304
Cash in banks, in USD	21	7	1
Cash in transit	17	31	55
Petty cash	4	2	3
Short-term deposits (less than 90 days)	<u>2,882</u>	<u>2,023</u>	<u>556</u>
Cash and cash equivalents in the statement of financial position	<u>3,416</u>	<u>2,378</u>	<u>919</u>
Cash and cash equivalents in the statement of cash flows	<u>3,416</u>	<u>2,378</u>	<u>919</u>

The Group keeps major bank balances in the following Russian banks — Bank St. Petersburg, Sberbank, Rosbank, Alfa Bank and in the Cyprus Hellenic bank.

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

As of 1 January 2008, CJSC "UK Etalon" (a company incorporated in the Russian Federation) was the parent company for the Group subsidiaries. Share capital of CJSC "UK Etalon" consists of 1 thousand ordinary shares with par value of RUR 1.2 thousand.

In February 2008, the Group performed a restructuring that resulted in Etalon Limited becoming the parent company. The existing Russian shareholders of CJSC "UK Etalon" transferred their shares in CJSC "UK Etalon" to Etalon Limited in exchange for the shares of Etalon Limited, with effect on minority interest of RUR 14 million and share capital of RUR 0.6 million.

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

	<u>Ordinary shares</u>	
	<u>2009</u>	<u>2008</u>
	<u>Number of shares unless otherwise stated</u>	
Authorised shares at beginning of year	1,117,647	1,000,000
Par value	0.01 GBP	0.01 GBP
On issue at beginning of year	1,117,647	500,000
Issued on Group restructuring		500,000
Issued for cash	<u>—</u>	<u>117,647</u>
On issue at end of year, fully paid	<u>1,117,647</u>	<u>1,117,647</u>

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

(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 31 December 2009 the total of subsidiaries' retained earnings, including the profits for the current year were RUB 6,632 million (2008: RUR 4,575 million, 1 January 2008: RUR 3,083 million).

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

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.

	2009	2008
	Number of shares unless otherwise stated	
Issued shares at 1 January	1,117,647	1,000,000
Effect of shares issued for cash in March	—	94,118
Weighted average number of shares for the year ended 31 December.	1,117,647	1,094,118

On 1 January 2008, the Company had 500 thousand ordinary shares. On Group restructuring in March 2008, 500 thousand 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 2008 was adjusted for 500 thousand shares as if the restructuring had occurred at 1 January 2008.

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 RUR	2009	2008	1 January 2008
<i>Non-current liabilities</i>			
Secured bank loans	250	90	135
Unsecured bank loans	208	1,197	2,434
Secured loans from other parties	928	—	—
Unsecured bond issues	1,186	580	2,109
	2,572	1,867	4,678
<i>Current liabilities</i>			
Current portion of secured bank loans	278	72	60
Current portion of unsecured bank loans	1,756	4,767	1,721
Current portion of secured loans from other parties	232	—	—
Current portion of unsecured bond issues	1,006	30	85
	3,272	4,869	1,866

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

mln RUR	Currency	Nominal interest rate	Year of maturity	31 December 2009		31 December 2008		1 January 2008	
				Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				528	528	162	162	195	195
Secured bank loan	USD	12.00%	2012	139	139	—	—	—	—
Secured bank loan	USD	11.60%	2011	316	316	—	—	—	—
Secured bank loan	USD	14.00%	2010	73	73	—	—	—	—
Secured bank loan	USD	9.50%	2011	—	—	162	162	195	195
Unsecured bank loans				1,983	1,964	5,985	5,964	4,176	4,155
Unsecured bank loan	USD	9.75% , 12.00%	2009, 2010	748	729	2,542	2,521	2,498	2,477
Unsecured bank loan	USD	10.50%	2010	194	194	471	471	—	—
Unsecured bank loan	USD	12.00% , 13.00% , 14.00%	2011	1,041	1,041	1,273	1,273	—	—
Unsecured bank loan	USD	11.75%	2009	—	—	59	59	—	—
Unsecured bank loan	RUR	13.00% , 15.00%	2009	—	—	168	168	—	—
Unsecured bank loan	USD	11.25%	2009	—	—	441	441	—	—
Unsecured bank loan	USD	10.79% , 11.09% , 11.39%	2008, 2009	—	—	1,031	1,031	824	824
Unsecured bank loan	USD	10.75%	2008	—	—	—	—	739	739
Unsecured bank loan	USD	9.50%	2011	—	—	—	—	115	115
Secured loans from other parties				1,160	1,160	—	—	—	—
Secured loan from other party . .	USD	18.11%	2014	669	669	—	—	—	—
Secured loan from other party . .	USD	18.72%	2014	430	430	—	—	—	—
Secured loan from other party . .	USD	19.19%	2014	61	61	—	—	—	—
Unsecured bond issues				2,217	2,192	610	610	2,194	2,194
Unsecured bonds	RUR	16.00%	2012	1,607	1,582	—	—	—	—
Unsecured bonds	RUR	11.75% , 11.25% , 11.00%	2008	—	—	—	—	682	682
Unsecured bonds	RUR	11.69% , 11.44% , 11.19% , 10.94% , 11.75%	2010	610	610	610	610	1,512	1,512
				5,888	5,844	6,757	6,736	6,565	6,544

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

Bank loans are secured by the following:

- buildings with a carrying amount of RUR 113 million see note 14.
- inventory with a carrying amount of RUR 1,508 million, see note 18.

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.

In 2008 the Group has offset financial assets (CLNs) and liabilities (loans) which were receivable from and payable to the same party in the amount of RUR 448 million in the statement of financial position. The Group had a legal right to offset the amounts and realised the asset and settled the liability simultaneously.

24 Provisions

mln RUR	<u>Warranties</u>	<u>Provision for deferred works</u>	<u>Total</u>
Balance at 1 January 2008	72	315	387
Provisions made during the year	26	2,309	2,335
Provisions used during the year	<u>(21)</u>	<u>(1,115)</u>	<u>(1,136)</u>
Balance at 31 December 2008	<u>77</u>	<u>1,509</u>	<u>1,586</u>
Balance at 1 January 2009	77	1,509	1,586
Provisions made during the year	18	2,144	2,162
Provisions used during the year	<u>(12)</u>	<u>(1,730)</u>	<u>(1,742)</u>
Balance at 31 December 2009	<u>83</u>	<u>1,923</u>	<u>2,006</u>
Non-current	83	—	83
Current	<u>—</u>	<u>1,923</u>	<u>1,923</u>
	<u>83</u>	<u>1,923</u>	<u>2,006</u>

(a) 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 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.

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25 Trade and other payables

mln RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
<i>Long-term</i>			
Finance lease liabilities	346	2	4
Trade payables	31	46	49
Other payables	<u>5</u>	<u>4</u>	<u>11</u>
	<u>382</u>	<u>52</u>	<u>64</u>
<i>Short-term</i>			
Advances from customers	17,869	23,283	12,918
Trade payables	1,013	2,281	1,026
Billings in excess of work completed	219	78	29
Payroll liabilities	176	186	170
Income tax payable	175	22	48
VAT payable	226	127	35
Finance lease liabilities	139	3	2
Other taxes payable	81	57	64
Other payables	<u>660</u>	<u>367</u>	<u>276</u>
	<u>20,558</u>	<u>26,404</u>	<u>14,568</u>
Total	<u>20,940</u>	<u>26,456</u>	<u>14,632</u>

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:

	<u>2009</u>			<u>2008</u>			<u>2007</u>		
	Future minimum lease payments	Interest	Present value of minimum lease payments	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	177	38	139	4	1	3	3	1	2
Between one and five years	378	32	346	2	—	2	5	1	4
More than five years	—	—	—	—	—	—	—	—	—
	<u>555</u>	<u>70</u>	<u>485</u>	<u>6</u>	<u>1</u>	<u>5</u>	<u>8</u>	<u>2</u>	<u>6</u>

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

<u>Currency</u>	<u>Nominal interest rate</u>	<u>Year of maturity</u>	<u>2009</u>		<u>2008</u>		<u>1 January 2008</u>	
			<u>Face value</u>	<u>Carrying amount</u>	<u>Face value</u>	<u>Carrying amount</u>	<u>Face value</u>	<u>Carrying amount</u>
EUR	8.67 - 12.59%	2012 - 2013	432	432	—	—	—	—
USD	24.76%	2012	50	50	—	—	—	—
RUR	16.04 - 24.47%	2010 - 2012	<u>3</u>	<u>3</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>
			<u>485</u>	<u>485</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>

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Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

26 Financial instruments and risk management

(a) Overview

The Group's financial instruments as at 31 December 2009, 31 December 2008 and 1 January 2008 are categorized as follows:

mln RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Financial assets at amortized cost			
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	2,011	1,329	879
Cash and cash equivalents	<u>3,416</u>	<u>2,378</u>	<u>919</u>
	<u>5,427</u>	<u>3,707</u>	<u>1,798</u>
Financial liabilities at amortized costs	<u>26,302</u>	<u>32,986</u>	<u>21,029</u>

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, aims to develop 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.

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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 revenue.

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 2009 the Group had not provided any financial guarantees to entities outside the Group (2008: nil, 1 January 2008: 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:

mln RUR	Carrying amount		
	2009	2008	1 January 2008
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	2,011	1,329	879
Cash and cash equivalents	3,416	2,378	919
	5,427	3,707	1,798

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 RUR	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008	Gross 1 January 2008	Impairment 1 January 2008
Not past due	1,383	4	714	12	344	—
Past due 0-30 days	33	—	47	1	27	—
Past due 31-120 days	31	1	44	9	12	—
Past due more than 120 days	123	37	175	5	139	13
	1,570	42	980	27	522	13

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

mln RUR	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	27	13
Increase during the year	38	16
Write-offs	(7)	(1)
Decrease due to reversal	<u>(16)</u>	<u>(1)</u>
Balance at end of the year	<u>42</u>	<u>27</u>

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

mln RUR	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	133	113
Increase during the year	112	50
Write-off	(8)	(2)
Decrease due to reversal	<u>(60)</u>	<u>(28)</u>
Balance at end of the year	<u>177</u>	<u>133</u>

(c) Liquidity risk

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

Each year the Group prepares cash flow budget to forecast possible liquidity deficits and to define the sources of financing of those deficits.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Contractual maturities of financial liabilities were as follows:

mln RUR	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0-6 mths</u>	<u>6-12 mths</u>	<u>1-2 yrs</u>	<u>2-3 yrs</u>	<u>3-4 yrs</u>	<u>4-5 yrs</u>	<u>Over 5 yrs</u>
2009									
Non-derivative financial liabilities									
Secured bank loans	528	598	131	195	223	49	—	—	—
Unsecured bank loans	1,964	2,101	1,147	744	210	—	—	—	—
Secured loans from other parties	1,160	1,641	228	177	367	328	290	251	—
Unsecured bond issues	2,192	2,715	736	446	817	716	—	—	—
Finance lease liabilities	485	555	91	86	204	162	12	—	—
Trade and other payables (excluding taxes payable)	<u>19,973</u>	<u>19,973</u>	<u>19,889</u>	<u>48</u>	<u>36</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>26,302</u>	<u>27,583</u>	<u>22,222</u>	<u>1,696</u>	<u>1,857</u>	<u>1,255</u>	<u>302</u>	<u>251</u>	<u>—</u>

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mln RUB	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
2008									
Non-derivative financial liabilities									
Secured bank loans	162	174	43	41	72	18	—	—	—
Unsecured bank loans	5,964	6,437	3,017	2,139	1,077	204	—	—	—
Unsecured bond issues	610	682	34	34	614	—	—	—	—
Finance lease liabilities	5	6	2	2	2	—	—	—	—
Trade and other payables (excluding taxes payable)	26,245	26,245	25,935	260	50	—	—	—	—
	<u>32,986</u>	<u>33,544</u>	<u>29,031</u>	<u>2,476</u>	<u>1,815</u>	<u>222</u>	<u>—</u>	<u>—</u>	<u>—</u>

mln RUB	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
1 January 2008									
Non-derivative financial liabilities									
Secured bank loans	195	223	38	37	69	64	15	—	—
Unsecured bank loans	4,155	4,538	1,786	178	2,574	—	—	—	—
Unsecured bond issues	2,194	2,665	117	217	529	1,802	—	—	—
Finance lease liabilities	6	8	2	1	3	2	—	—	—
Trade and other payables (excluding taxes payable)	14,479	14,479	14,272	147	60	—	—	—	—
	<u>21,029</u>	<u>21,913</u>	<u>16,215</u>	<u>580</u>	<u>3,235</u>	<u>1,868</u>	<u>15</u>	<u>—</u>	<u>—</u>

(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 EUR (euro) — the currencies other than the respective functional currency of Group entities, the Russian Rouble (RUR).

Exposure to currency risk

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

mln RUR	USD- denominated 2009	Euro- denominated 2009	USD- denominated 2008	Euro- denominated 2008
Cash and cash equivalents	106	590	103	548
Loans and borrowings	(3,652)	—	(5,958)	—
Finance lease liabilities	(50)	(432)	—	—
Gross exposure	<u>(3,596)</u>	<u>158</u>	<u>(5,855)</u>	<u>548</u>

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

The following significant exchange rates applied during the year:

in RUR	Average rate		Reporting date spot rate		
	2009	2008	2009	2008	1 January 2008
USD 1	31,77	24,87	30,24	29,38	24,55
EUR 1	44,34	36,60	43,39	41,44	35,93
GBP 1	49,65	45,76	48,04	42,62	49,01

Sensitivity analysis

A weakening of the RUR, 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 2008, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

mln RUR	Equity	Profit or loss
2009		
USD (10% strengthening)	(360)	(360)
EUR (10% strengthening)	<u>16</u>	<u>16</u>
	(344)	(344)
2008		
USD (10% strengthening)	(586)	(586)
EUR (10% strengthening)	<u>55</u>	<u>55</u>
	(531)	(531)

A strengthening of the RUR 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 terms of the Group's loans are limited to fixed interest rates. 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 RUR	Carrying amount	
	2009	2008
Fixed rate instruments		
Financial assets	4,030	2,403
Financial liabilities	<u>(6,329)</u>	<u>(6,741)</u>
	(2,299)	(4,338)

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.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(e) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

mln RUR	Notes	<u>Carrying amount 2009</u>	<u>Fair value 2009</u>	<u>Carrying amount 2008</u>	<u>Fair value 2008</u>
Assets carried at amortised cost					
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	19.16	2,011	2,011	1,329	1,329
Cash and cash equivalents	20	<u>3,416</u>	<u>3,416</u>	<u>2,378</u>	<u>2,378</u>
		<u>5,427</u>	<u>5,427</u>	<u>3,707</u>	<u>3,707</u>
Liabilities carried at amortised cost					
Secured bank loans	23	528	528	162	162
Unsecured bank loans	23	1,964	1,964	5,964	5,964
Secured loans from other parties	23	1,160	1,160	—	—
Unsecured bond issues	23	2,192	2,192	610	610
Trade and other payables (excluding taxes payable)	25	<u>20,458</u>	<u>20,458</u>	<u>26,250</u>	<u>26,250</u>
		<u>26,302</u>	<u>26,302</u>	<u>32,986</u>	<u>32,986</u>

The basis for determining fair values is disclosed in note 4.

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 RUR	<u>2009</u>	<u>2008</u>
Total borrowings	5,844	6,736
Less: cash and cash equivalents	<u>(3,416)</u>	<u>(2,378)</u>
Net debt	<u>2,428</u>	<u>4,358</u>
Total equity	<u>8,051</u>	<u>2,942</u>
Debt to capital ratio at 31 December	<u>0.30</u>	<u>1.48</u>

Finance lease liabilities (RUR 485 million at 31 December 2009, RUR 5 at 31 December 2008) are not included in the total amount of borrowings.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUR	2009	2008
Less than one year	134	128
Between one and five years	87	165
More than five years	<u>16</u>	<u>17</u>
	<u>237</u>	<u>310</u>

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 2009 an amount of RUR 60 million was recognised as an expense in profit or loss in respect of operating leases (2008: RUR 69 million).

28 Capital commitments

As at 31 December 2009 the Group does not have any capital commitments (2008: nil, 1 January 2008: 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 or claims against the Group could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

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

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

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

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), penalty 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) Control relationships

The ultimate beneficiary shareholders of the Group are members of the family of Mr. Viacheslav Zarenkov, who owned 67% of the Company's shares at 31 December 2009 and 31 December 2008 (1 January 2008: 79%).

(b) Transactions with management and close family members

(i) Management remuneration

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

mln RUR	<u>2009</u>	<u>2008</u>
Salaries and bonuses	109	127
Benefits in kind	<u>2</u>	<u>—</u>
	<u>111</u>	<u>127</u>

(ii) Other transactions

Sales to key management personnel are disclosed below:

mln RUR	<u>Transaction value</u>		<u>Outstanding balance</u>		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Sale of apartments and premises	<u>60</u>	<u>17</u>	—	—	—
	<u>60</u>	<u>17</u>	—	—	—

(c) Transactions with other related parties

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

(i) Revenue

mln RUR	<u>Transaction value</u>		<u>Outstanding balance</u>		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Other related parties	79	71	149	67	99
Equity accounted investees	<u>3</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>5</u>
	<u>82</u>	<u>74</u>	<u>151</u>	<u>70</u>	<u>104</u>

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

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

(ii) Expenses

mln RUR	Transaction value		Outstanding balance		
	2009	2008	2009	2008	1 January 2008
Other related parties	43	26	45	55	85
Equity accounted investees	83	227	17	26	19
	126	253	62	81	104

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

(iii) Loans

mln RUR	Amount loaned		Outstanding balance		
	2009	2008	2009	2008	1 January 2008
Loans given:					
Equity accounted investees	262	19	—	67	45
Other related parties	6	1	4	4	4
	268	20	4	71	49

A provision of RUR 17 million was recognized in respect of loans given to LLC “Severnaya Vysota I K” as of 31 December 2008 (1 January 2008: nil). Before December 2009, when the control in LLC “Severnaya Vysota I K” has been acquired, the company was an equity accounted investee.

Loans bear interest rates ranging from 0% to 17% per annum (2008: 0% to 11%).

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	Ownership interest, %		
		31 December 2009	31 December 2008	1 January 2008
CJSC “UK Etalon”	Russian Federation	99.50	99.50	100.00
CJSC “SSMO LenSpetsSMU” . . .	Russian Federation	98.01	98.01	98.50
CJSC “SPb MFTC”	Russian Federation	88.64	88.64	89.09
CJSC “TSUN LenSpetsSMU” . . .	Russian Federation	98.90	98.90	99.40
CJSC “Aktiv”	Russian Federation	98.01	98.01	98.50
CJSC “Novator”	Russian Federation	89.40	89.40	89.85
CJSC “LenSpetsSM-Rekonstruktsiya”	Russian Federation	79.23	79.23	79.63

As of 31 December 2009 the Group controlled 77 legal entities (31 December 2008: 73; 1 January 2008: 55). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

In 2009 and 2008 a number of subsidiaries were consolidated based on management contracts with CJSC “UK Etalon” being the Russian subholding company of the Group. Management contracts give CJSC “UK Etalon” the power to govern the financial and operating policies of those subsidiaries and to obtain benefits from their activities.

The Group has established a number of special purpose entities (SPEs) for holding of land plots and trading purposes that are also consolidated. SPEs established for trading purposes are cooperatives of owners of housing and commercial premises in which the customers acquire shares in order to obtain ownership rights for those premises.

Etalon Limited

Notes to the Consolidated Financial Statements for the years ended 31 December 2009 and 2008 — (Continued)

32 Events subsequent to the reporting date

(a) Financing events

Subsequent to the balance sheet date the Group has repaid loans and borrowings outstanding as at 31 December 2009 for the total amount of RUR 4,436 million.

Subsequent to the balance sheet date the Group has obtained new loans for the total amount of RUR 8,038 million.

(b) Operating events

In September 2010 the Group purchased a 12 hectares land plot located in Ochyabrskaya Embankment in St. Petersburg for the consideration of RUR 386 million.

The Group has also acquired a company possessing rights to build residential premises on the 11 hectares land plot located in Butovo district in Moscow.



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Credit Suisse Securities (Europe) Limited, Renaissance Securities (Cyprus) Limited and VTB Capital plc as representatives of the underwriters defined in the prospectus produced by Etalon Group Limited.

15 April 2011

Dear Sirs

**ETALON GROUP LIMITED
VALUATION OF A PORTFOLIO OF FREEHOLD AND LEASEHOLD PROPERTIES**

Scope of Instructions

In accordance with our engagement letter dated 21 March 2011, with Etalon Group Limited (the **“Company”**), we, (Jones Lang LaSalle), Chartered Surveyors, have considered the properties referred to in the attached schedule forming Appendix I (the **“Schedule”**), in order to advise you of our opinion of the Market Value (as defined below) of the freehold and leasehold interests in each of these properties (the **“Properties”**). The effective date of the valuation is 31 December 2010.

Purpose of Valuation

We understand that this valuation certificate and the attached Schedules (together, the **“Valuation Certificate”**) are required for inclusion in a prospectus which investors will rely on in making their decision to invest in the Company (the **“Purpose”**).

Disclosure

The members of the Royal Institution of Chartered Surveyors (the **“RICS”**) signing this certificate have not previously been the signatory to any valuations provided to the Company for the same purposes as this Valuation Certificate.

Jones Lang LaSalle has provided valuation services to the Company and has done so for a period of less than one year. In relation to the most recent financial year, the proportion of the total fees payable by the Company to the total fee income of Jones Lang LaSalle is less than 5% of the total.

Basis of Valuation

We set out below the basis of valuation we have used in preparing our Valuation Certificate attached to which, as Appendices I and II, are two schedules summarising the individual properties appraised together with a summary of our opinion of their Market Values.

We confirm that the valuations have been made in accordance with the appropriate sections of both the current Practice Statements (**“PS”**), and United Kingdom Practice Statements (**“UKPS”**) contained within the RICS Valuation Standards, 6th Edition (the **“Red Book”**). This is an internationally accepted basis of valuation.

Market Value is defined as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

We can confirm that we have prepared our valuation as External Valuers as defined in the RICS Valuation Standards and our valuation has been prepared in accordance with our General Principles attached as Appendix IV to this certificate.

The majority of the properties covered by this Valuation Certificate are residential developments at different stages of completion. In addition to these, there are a number of commercial real estate properties such as Business-Centre “Smolenka”, shopping centre “Aura” and Business Center “Birzhevoy complex”. In relation to those latter commercial properties, in arriving at our opinions of Market Value we have also arrived at our opinions of current estimated net annual rent. These are assessed on the assumption that they are the rent at which a new letting of an interest in property would have been completed at the date of valuation assuming:

- (i) a willing landlord
- (ii) that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the letting
- (iii) that the state of the market, levels of value and other circumstances were, on any earlier assumed date of entering into an agreement for lease, the same as on the valuation date
- (iv) that no account is taken of any additional bid by a prospective tenant with a special interest
- (v) that where relevant the length of term and principal conditions assumed to apply to the letting and other tenants terms are the same as those set out in the rent review clause contained in the occupational lease which we confirm are not exceptionally onerous or beneficial for letting of the type and class of the subject property and
- (vi) that both parties to the transaction had acted knowledgeably, prudently and without compulsion

The ‘net annual rent’ for each commercial property, where relevant, is referred to in the Schedule as the ‘Estimated Market Rental Value’.

Net Annual Rent is defined as:

“the current income or income estimated by the valuer:

- (i) ignoring special receipts or deductions arising from the property*
- (ii) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and*
- (iii) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a good condition to command its rent.”*

We can confirm that each property has been valued in accordance with the above bases of valuation.

Assumptions and Sources of Information

An assumption is stated in the Glossary to the Red Book to be a “supposition taken to be true” (“**assumption**”). Assumptions are facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, need not be verified by a Valuer as part of the valuation process. In undertaking our valuations, we have made a number of assumptions and have relied on certain sources of information. The Company has confirmed that our assumptions are correct. We believe that the assumptions we have made are reasonable, taking into account our knowledge of the properties, and the contents of reports made available to us. However, in the event that any of these assumptions prove to be incorrect then our valuations should be reviewed. The assumptions we have made for the purposes of our valuations are referred to below.

We would state that the adopted development commencement dates and construction periods in respect of each property have been made in isolation of the remaining properties also subject to development. As a result, the valuations reported do not reflect the effect of numerous properties being developed simultaneously or being released to the market at the same time.

We have also made an assumption that the information the Company has supplied to us in respect of the properties is both full and correct.

The majority of properties in the course of development, which are located in Saint Petersburg, are held by way of freehold interests in the land. In terms of those properties under development located in Moscow and Moscow Region, as a rule these are held by way of an investment contract and a leasehold interest in the land. The ground rental payments of such interests may be reviewed on an annual basis, by reference to an established formula. Within the terms of the lease, there is a right to extend the term of the lease upon expiry in line with the existing terms and conditions thereof.

In terms of the commercial real estate properties, in those instances where the owner holds a long-term leasehold interest in the land, normally for a term of 49 years, it should be noted that upon expiry of such long term ground leasehold interests, the lessee will have a right of first refusal to extend the leasehold interest.

Such interests are not normally assigned as real estate assets, for example for taxation reasons, therefore we have assumed that each leasehold interest is held by way of a special purpose vehicle (“**SPV**”), and that the shares in the respective SPVs themselves are capable of assignment.

With regard to each of the properties considered, in those instances where project documentation has been agreed with the respective local authorities, our opinions of value have been arrived at on the basis of these agreements. Where such documentation is yet to be agreed we have had regard to the Company’s individual proposals and investment contracts which fix the development concept in terms of permitted uses, development volumes and timing requirements.

We have been provided by the Company with information on a number of properties as to the outstanding payments for the areas sold, in which the buyers shall pay out in accordance with schedules stipulated by individual sales agreements. Those outstanding payments have been taken into account in our valuation.

In addition to those assumptions which we have made, it has also been necessary for us to prepare our valuation of the property on the basis of two “**Special Assumptions**”. In this respect, a Special Assumption is referred to in the Red Book as an Assumption that either:

- (i) requires the valuation to be based on facts that differ materially from those that exist at the date of valuation: or*
- (ii) is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances*

With regard to this Valuation Report, we are of the opinion that the Special Assumptions set out below are valid, realistic and relevant.

In some instances, detailed below, we understand that the Company is in the course of acquiring a number of the properties:

- Obukhovskoy oborony prospect 110: On 17 May 2010, the Company entered into a term sheet agreement in relation to an acquisition of ownership rights.
- Uralskaya str. 2: On December 30, 2010, the Company entered into a preliminary sale and purchase agreement in relation to an acquisition of ownership rights.
- Kremenchugskaya str. 11: On October 29, 2010, the Company entered into an investment contract relating to the development of the project. Pursuant to the agreement, the Company have a right to obtain lease rights to the project land to be divided into plots in accordance with the phases of construction. The Company will acquire ownership rights to the first land plot upon approval of the town planning and design documentation in respect of the development with each remaining rights acquired upon completion of the respective phase of the construction. The purchase price will be offset against a payment under either a cost sharing construction or an investment agreement to be entered with Cooperative established by the current owner of the site.
- Moskovsky prospect 115: On December 10, 2010, the Company entered into an investment contract relating to the development of the project. Pursuant to the agreement, the Company obtain lease rights to the project land and will acquire ownership rights thereto within two years upon preparation of design documentation.

Prior to arriving at our opinions of Market Value of these properties, we have entered into a dialogue with the Company’s legal team, which confirmed to us that the rights for those properties will be registered in the short-term, in accordance with the terms stipulated by the current preliminary sales agreements. Given this, we have valued these properties on the Special Assumption that these rights are obtained as at the date of Valuation.

Additionally, we have made a further Special Assumption that the Company has executed all the payments related to the purchase of rights for these properties.

In terms of the Assumptions which we have made and which are summarised within this Valuation Certificate, the Company has confirmed that our Assumptions are correct as far as they are aware. In the event that any of our Assumptions prove to be incorrect, the valuations contained in this valuation Certificate should be revised and may be subject to alteration.

Date of Valuation and Inspections

The date of valuation for the portfolio of properties summarised within attached schedule attached to this Certificate as Appendix I and Appendix II is 31 December 2010 and is based on information provided to us as at this date.

Each of the properties has been inspected by either Dmitry Romanov MRICS, Irina Poletaeva MRICS, Alla Axyonova, Natalia Galakhova, Svetlana Shorina, Anastasia Ilyasova, Alexandra Tarasova, Sergey Osetrov or Dmitry Davydov on the following dates:

<u>Property</u>	<u>Inspection date</u>
1. Emerald Hills	13 September 2010
2 Etalon-City	25 August 2010
3 Jubilee Estate	23 August 2010
4 Talisman	20 August 2010
5 Prestige	20 August 2010
6 Etude	26 August 2010
7 Orbit	30 August 2010
8 Sea Cascade	20 August 2010
9 Sea Facade	20 August 2010
10 Near Rostral Columns	20 August 2010
11 Petrogradsky Etalon	23 August 2010
12 Oktyabrskaya Embankment	26 August 2010
13 Rainbow	26 August 2010
14 Polezhaevskiye Houses	26 August 2010
15 Golden Bay	23 August 2010
16 Grazhdanka City	30 August 2010
17 Grazhdanka City-2	30 August 2010
18 New Constellation	30 August 2010
19 Invigorating Stream	30 August 2010
20 Smolenka River Business Centre	20 August 2010
21 Stock Exchange Business Centre	23 August 2010
22 AURA Trading and Exhibition Centre	23 August 2010
23 Oktyabrskaya embankment, 118	27 January 2011
24 Smolenskaya Street, 9	27 January 2011
25 Obukhovskoy oborony prospect, 110	27 January 2011
26 Uralskaya Street, 2	27 January 2011
27 Kremenchugskaya Street, 11	27 January 2011
28 Moskovskiy prospect, 115	27 January 2011

Tenure and Tenancies

In arriving at our opinions of Market Value, we have valued the interests held in each property, as detailed within the schedule forming Appendix I and Appendix II to this Certificate.

We have not had access to the title deeds of the properties. As a result, we have assumed that the title is marketable and that the properties are free from encumbrances, mortgages and charges. We have also assumed that, where the interest in the properties is leasehold, there are no unreasonable or unusual clauses which would affect value and no unusual restrictions or conditions governing the assignment or disposal of the interest.

In terms of those properties which are held by way of ground leases, we understand that such ground leases are capable of being transferred in Moscow and Saint-Petersburg, normally through an SPV, and we further understand that each asset is held as a SPV, and that the shares in the respective SPVs themselves are capable of assignment.

The majority of the properties comprise land which is held by way of a freehold interest. With regard to those properties where the land is held by way of a leasehold interest, it is important to note that the rights to complete a development may be lost or, at least, delayed if the lessee fails to complete a permitted development within the timescale set out by the ground lease. In addition, in the event that a development has not been commenced upon the

expiry of a lease then the City Authorities are entitled to decline the granting of a new lease on the basis that the land is not used in accordance with its designation. Furthermore, where all necessary permissions and consents for the development are not in place, this may provide the City with grounds for rescinding or non-renewal of the ground lease. In undertaking the valuations reported herein, we have made the assumption that no such circumstances will arise to permit the City to rescind the land lease or to not grant a renewal.

In respect of the amount of the payable land rent and the land tax, we have had regard to the information and relative documents provided to us by the Company.

As at the date of valuation there were no concluded occupational leases passing on any of the subject properties, with the exception of premises within “Smolenka” business centre and within Business Centre “Birzhevoy complex”. With relation to these properties, we have not conducted credit enquires into the financial status of any of the tenants. However, in undertaking our valuations we have reflected our understanding of the market perception of the financial status of the tenants. We have also assumed that each tenant is capable of meeting its leasehold obligations and that there are no undisclosed breaches of covenant.

In terms of the residential properties under development, these interests are held either by way of freehold or leasehold interests for the land plot, during the course of development. Once the construction of the residential building is completed, the developer has the right to obtain a freehold interest in the developed premises.

As detailed above, in four instances we understand that the Company is still in the process of acquiring rights to a number of the Properties:- Prospect Obukhovskoy oborony 110, Uralskaya str. 2, Kremenchugskaya str. 11/ Nevsky prospect 85 and Moskovsky prospect 115. As previously stated, we have valued these properties on the (Special) Assumptions that these that these rights are obtained as at the date of Valuation. Additionally, we have made a further Special Assumption that the Company has executed all the payments related to the purchase of rights for these properties.

Floor Areas

We have not undertaken any measured surveys of the properties and have relied entirely on information as to site areas and floor areas and dimensions of existing and proposed developments as provided to us by the Company.

Planning

The process of obtaining planning permits and all necessary planning consents is a particularly time consuming and difficult process in Russia. Prior to the granting of a construction permit, a number of preliminary planning approvals and, consequently, a ‘project’ approval are required. A ‘project’ must be approved through a division of the City Authorities and this will effectively summarise all design details of the proposed development. This document then provides the basis upon which a formal planning consent may be applied for and subsequently granted, and will outline all necessary contributions and technical requirements from utility providers.

Where available, the Company has provided us with such project documentation in respect of each of the development projects and we have had regard to this information in arriving at our opinions of Market Value.

Where such documentation has not been available, we have incorporated our reasonable estimates of all costs necessary to obtain all necessary consents and documentation, together with the time necessary to obtain such. It should be understood that these are only estimates and the actual payments requirement may vary.

With the exception of a few projects, which have been recently purchased by the Company, we understand that the development concepts and development volumes within the projects under development have been approved by the City Authorities in the majority of development properties considered in this Valuation Certificate. As a result, we have assumed that the subject properties will be developed in accordance with the approved planning and project documentation. In terms of the projects at early development stages, which have not obtained full permission from the city authorities, we have analyzed the data on the proposed development concepts provided to us by the Company and have formed our opinion on the possibility to adopt these concepts as the basis of the valuation taking into account the highest and best uses of the properties in question.

Although we have not made any formal searches in terms of planning consents and issues, we have generally relied upon the information provided to us by the Company and project documentation (where available) in respect of each of the properties.

In arriving at our opinions of Market Value we have assumed that all necessary planning consents will be obtained within a reasonable and standard timescale and that there will be no extraordinary issues which may delay the receipt of the necessary consent and which may impact on the value or marketability of the property.

Environmental Investigations and Ground Conditions

We have not been instructed to carry out site surveys or environmental assessments nor have we investigated any historical records, to establish whether any land or premises are or have been, contaminated. Unless we have been provided with information to the contrary, we have assumed that the properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future use of the properties.

We were not instructed to carry out structural surveys of the properties but we have reflected any apparent wants of repair in our opinion of the value as appropriate. The properties have been valued on the basis of the Company's advice that no deleterious materials have been used in the construction of any of the subject buildings, save where we have been specifically advised to the contrary.

Valuation

On the bases outlined within this Valuation Certificate, we are of the opinion that the aggregate of the individual gross Market Values, as at 31 December 2010, of the freehold and leasehold interests of those properties set out in the attached schedule, is as set out below:

Freehold Properties:

\$882,030,600

(Eight Hundred and Eighty Two Million Thirty Thousand Six Hundred US Dollars)

Leasehold Properties:

\$534,350,000

(Five Hundred and Thirty Four Million Three Hundred and Fifty Thousand US Dollars)

The Total of Freehold and Leasehold Properties

\$1,416,380,600

(One Billion Four Hundred and Sixteen Million Three Hundred and Eighty Million Six Hundred Thousand US Dollars)

There are in total 10 leasehold and 18 freehold properties.

As detailed above, the Company has yet to acquire marketable title reflecting the levels of value stated herein on those land plots located at Obukhovskoy oborony prospect, 110; Uralskaya Street, 2; Kremenchugskaya Street, 11; Moskovskiy prospect, 115. We estimate the value attributable to these land plots to be **\$312,900,000 (Three Hundred and Twelve Million, Nine Hundred Thousand US Dollars)**.

In the event the Company does not complete the acquisition of these land plots, the Market Value of the subject properties, subject to the assumptions and remaining special assumptions and comments contained in this Report and Appendices, would be adjusted accordingly.

Etalon Group advise that they see little to no risk in the completion of these sale and purchase agreements due to the following reasons:

- The plots are subject to preliminary contracts with the Seller, enforceable by Law.
- Etalon Group has already made prepayments on the purchase price set out in these preliminary sale and purchase agreements to the Seller, thus partially meeting its obligations under these agreements.

It should be noted that the above valuation represents the aggregate of the individual values attributable to each property and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot.

Realisation Costs

Our Valuation is exclusive of VAT and no allowances have been made for any expenses of realisation or for taxation which might arise in the event of a disposal of any property. Our valuation is, however, net of purchaser's acquisition costs.

Exchange rates

We have indicated the Market Values of the subject properties in US Dollars. In arriving at our opinions of value we have adopted the exchange rate of the \$ (USD) against the Russian Rouble (RUB) of 1 USD = 30.4769 RUB.

No Significant Change

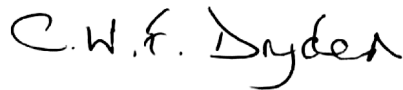
There has been no material change in the Market Value of any of the Properties between 31 December 2010 and the date of this Valuation Certificate. We confirm that we are not aware of anything which would require us to revise our assumptions or valuations in this Valuation Certificate.

Responsibility

Our Valuation and the Schedules are for the Purpose and form part of the prospectus, and we hereby give our consent for our Valuation Certificate to be included within the Prospectus for that Purpose. Before this Valuation Certificate, or any part thereof, is reproduced or referred to in any other document, circular or statement and before its contents, or any part thereof, are otherwise disclosed orally or otherwise to a third party, the Valuer's written approval as to form and context of such publication or disclosure must first be obtained.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our Valuation Certificate are combined with other reports. To the fullest extent permitted by law, we do not accept or assume responsibility or liability in respect of the whole or any part of the certificate, or valuation, other than in connection with the Purpose, whether published with our consent or otherwise, except where expressly agreed by our prior consent in writing.

Yours faithfully



**Chris Dryden BLE MA MRICS
National Director**



**Sergey Belov MS MRICS
National Director**

For and on behalf of Jones Lang LaSalle

Appendices

Appendix I	Schedule of Assets
Appendix II	Schedule of Valuations
Appendix III	Schedule of year by year commissioning levels
Appendix IV	General Principles Adopted in the Preparation of Valuation and Certificates
Appendix V	Extract from the RICS Valuation Standards (6th edition)
Appendix VI	Valuation Methodology

APPENDIX 1 — Schedules of Assets

ETALON GROUP LIMITED
SCHEDULE
Portfolio Assets
(Valuation as at 31 December 2010)

Residential projects under development

<u>#</u> <u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
1. Emerald Hills	<p>Location: Aninskaya Street, the city of Krasnogorsk, Moscow region</p> <p>Descriptions: A 16-25 storey brick and cast-in-situ concrete building with build-in commercial premises, schools, kindergartens. Underground car parking.</p> <p>Commissioning: 2011-2016.</p> <p>The development envisages a total site area of 80 hectares with a total net sellable area of 868,034 square metres. The site is intended for the development of a residential micro district with comfort class high-rise residential buildings, schools, kindergartens, sport and medical centres, parking and commercial premises and administrative entities. The proposed residential complex is planned to be built in six stages.</p> <p>As at the valuation date, the first phase of the development was in the course of construction. Construction of the entire development is scheduled to be completed by 2016.</p> <p>The Property is located in Krasnogorsk, the administrative centre of the Krasnogorsky District, which is in the northwest part of the Moscow Region. The Property is located in the Opalikha Microdistrict, near Anino village, 9 km from the MKAD along the Volokolamskoye Highway, which is the Property's southern border and is Krasnogorsk's main thoroughfare.</p> <p>As at the valuation date, 593,759 sq m of apartment space, 72,192 sq m of commercial space and 4,773 parking spaces were unsold.</p> <p>In accordance with the investment contract, CJSC Zatonskoye will obtain freehold interests for a 97% share of residential premises and 100% share of the commercial premises when construction is completed. CISC Zatonskoye holds the land via a 49-year leasehold interest.</p>	\$257,600,000
2. Etalon-City	<p>Location: Starokrymskaya Street, 13, South Butovo, Moscow</p> <p>Descriptions:</p> <p>Commissioning: 2014</p> <p>The development occupies a total site area of 11.24 hectares with a total net sellable area of 269,517 square metres. The site intended for a residential development is located in the South Butovo sub-district of the South-Western Administrative District (SWAD) of Moscow. The current development concept stipulates the development of a residential complex with commercial premises, underground parking and social infrastructure. We assume the buildings will be monolithic concrete structures, offering comfort class apartments. The delivery of the Property is scheduled for Q4 2014.</p>	\$92,400,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
3.	Jubilee Estate	<p>South Butovo is a well-developed residential district of Moscow that benefits from good ecological conditions, although car accessibility from the city centre is problematic during peak traffic hours due to heavy traffic congestion.</p> <p>The site adjoins the intersection of Polyany and Starokrymskaya Streets, bordering it on the west and north, respectively. To the south are multi-storey residential blocks while to the west, north and east of the Property are forests.</p> <p>In accordance with the investment contract, LLC Daikar will hold a 93.15% share of the saleable residential area and 100% of the built-in commercial premises on the ground floors of the residential buildings and underground parking. We assume that a long-term leasehold interest in the land will be obtained in due course.</p> <p>Location: Komendantsky prospect, 51/1; Komendantsky prospect, 53/2,3,4; Shyvalovsky prospect, 41/1, St. Petersburg</p> <p>Descriptions: A 16-25 storey brick and cast-in-situ concrete complex with built-in commercial premises at the crossing of Komendantsky prospect and Shuvalovsky prospect. Underground car parking.</p> <p>Commissioning: 2009-2012</p> <p>The development envisages a total site area of 35.40 hectares with a total net sellable area of 601,758 square metres.</p> <p>The Property is a large scale residential development located in the northwest part of St. Petersburg in the Primorsky District, which is one of the city's largest districts. The development is to include 13 high-rise residential buildings constructed using poured concrete technology with brick accents and ventilated facades with built-in commercial units (on the ground levels), social infrastructure and enclosed multi-level underground parking. The proposed residential complex will have two housing blocks: 75A (6 buildings) and 78A (7 buildings). The complex is positioned as comfort class.</p> <p>As at the date of valuation, 8 buildings have been commissioned and completion of the overall development is scheduled for 2012.</p> <p>The Property is surrounded by residential blocks to the south, the southeast and the west; by industrial and transport infrastructure to the east and an undeveloped area to the east and north. The development is in close proximity to Komendantsky metro station and major roadways, including Komendantsky prospect, Shuvalovsky prospect, the city's ring road and the Western High-Speed Diameter. The area has well-developed social and commercial infrastructure and a reliable transport network.</p> <p>As at the valuation date, 295,683 sq m of residential space, 15,146 sq m of commercial space and 2,201 car parking spaces were unsold.</p>	\$415,800,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
4.	Talisman	<p>The land plot is held by CJSC SSMO LenSpetsSMU by a way of freehold interest. CJSC SSMO LenSpetsSMU has the right to a 100% share of the unsold residential area, commercial premises and parking.</p> <p>Location: Vasilievsky Island, the 15th line, 76A, St. Petersburg</p> <p>Descriptions: A 2-11 storey brick and cast-in-situ concrete complex with build-in and adjacent commercial premises. Underground car parking.</p> <p>Commissioning: 2011</p> <p>The development occupies a total site area of approximately 0.48 hectares with a total net sellable area of 14,599 square metres.</p> <p>The land plot is intended for the premium class residential development Talisman. The The proposed residential complex will include 4 buildings above a basement level car park... Building 1 has 9 floors and its proposed use is residential with support premises on the ground floor. Buildings 2 and 3 each have 11 floors and their proposed uses are residential with support premises on the ground floors of each building. Building 4 has 9 floors and its proposed use is commercial. Construction is planned to be completed in Q3 2011.</p> <p>As at the valuation date, 2,538.5 sq m of apartment space, 2,039.9 sq m of commercial space and 110 car parking spaces were unsold.</p> <p>The Property is located in the Vasileostrovsky District of St. Petersburg in close proximity to numerous historical and cultural landmarks. The proximity of the Vasileostrovsky District to the city centre makes it a prestigious location for both living and business. However, the district's inadequate transportation infrastructure negatively impacts further development.</p> <p>Typically, it takes approximately 15 minutes by car to reach the city centre. The nearest metro station is Vasileostrovskaya, which is a 15-minute walk from the Property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.</p> <p>CJSC SSMO LenSpetsSMU holds the land plot via freehold interest and has the right to a 100% share of the unsold residential area, commercial premises and parking.</p>	\$19,400,000
5	Prestige	<p>Location: Vasilievsky Island, the 26th line, 15A, St. Petersburg</p> <p>Descriptions: 16-storey residential building with above-ground and underground parking, constructed using poured concrete technology with ventilated facades</p> <p>Commissioning: 2012</p> <p>The development envisages a total site area of approximately 0.35 hectares with a total net sellable area of 21,057 square metres.</p>	\$26,000,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
6	Etude	<p>The land plot is intended for the premium class residential development Prestige. The proposed building will have 16 floors and its proposed use is residential with support premises on the ground floor. Construction is planned to be completed in Q3 2012.</p> <p>As at the valuation date, 14,397.4 sq m of apartment space, 1,979.9 sq m of commercial space and 96 car parking spaces were unsold.</p> <p>The Property is located in the Vasileostrovsky District of St. Petersburg in close proximity to numerous historical and cultural landmarks. The proximity of the Vasileostrovsky District to the city centre makes it a prestigious location for both for living and business. However, the district's inadequate transportation infrastructure negatively impacts further development.</p> <p>It takes approximately 20 minutes by car to reach the city centre. The nearest metro station is Vasileostrovskaya, which typically is a 10-minute drive from the Property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.</p> <p>CJSC SSMO LenSpetsSMU holds the land plot via freehold interest and has the right to a 100% share of the unsold residential area, commercial premises and parking.</p> <p>Location: Sedova Street., 24, building 3, lit. A, St. Petersburg</p> <p>Descriptions: A 23 storey, two section brick and cast-in-situ concrete building.</p> <p>Commissioning: 2012</p> <p>The development occupies a total site area of approximately 0.42 hectares with a total net sellable area of 22,723 square metres.</p> <p>The land plot is intended for residential development with support commercial space. The proposed residential complex Etude will include apartments, car parking spaces and commercial premises.</p> <p>The development is located in the Nevsky District of St. Petersburg. The Property is easily accessible by car and pedestrians from Sedova Street, which connects the Nevsky District with the city centre. The nearest metro station is Elizarovskaya, which is a 7-minute walk from the Property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.</p> <p>As at the date of an inspection of the Property, the foundation was being laid. Delivery of the Property is scheduled for Q2 2012.</p> <p>As at the valuation date, 10,841 sq m of apartment and commercial space was unsold; sales of parking spaces and commercial premises had not yet begun.</p> <p>CJSC SSMO LenSpetsSMU holds freehold interest in the site and has the right to a 100% share of the unsold residential area, commercial premises and parking</p>	\$11,000,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
7	Orbit	<p>Location: between Nauki prospect and Gzhatskaya Street., St. Petersburg</p> <p>Descriptions: A 17-24 storey brick and cast-in-situ concrete building with build-in commercial premises. Four residential buildings. Underground car parking.</p> <p>Commissioning: 2012</p> <p>The development occupies a total site area of approximately 6.89 hectares with a total net sellable area of 207,405 square metres.</p> <p>The land plot is intended for the mass-market class residential development Orbit. The address of the Property is Gzhatskaya Street, 29a, lit. Ö, lit. 3; Nauki Prospect, 17, bld. 3, lit. Â, the Kalininsky district of St. Petersburg.</p> <p>The complex will consist of four high-rise buildings varying from 17 to 24 floors.. As at the valuation date, the residential complex was in the course of construction. Construction is planned to be completed in Q3 2012.</p> <p>As at the valuation date, 131,348 sq m of apartment space, 9,461 sq m of commercial space and 926 car parking spaces were unsold.</p> <p>The Property is located in the Kalininsky District of St. Petersburg. The Kalininsky District is located in the north-eastern part of St. Petersburg. The Property is located in the Grazhdanka microdistrict, which is the most popular residential area among potential buyers. The majority of surrounding land comprises residential accommodation. In terms of accessibility, the Property benefits from good transport links, with access from Nauki Prospect and Gzhatskaya Street. It takes approximately 30 minutes by car to reach the city centre. The Akademicheskaya metro station is a 3-5 minute walk from the Property.</p> <p>CJSC SSMO LenSpetsSMU holds freehold interest in the site and has the right to a 100% share in the unsold residential area, commercial premises and parking.</p>	\$106,500,000
8	Oktyabrskaya embankment, 118	<p>Location: Ockyabrskaya embankment, 118, St. Petersburg</p> <p>Descriptions: 10 buildings, constructed using poured concrete technology with brick elements and ventilated facades, including residential buildings, commercial premises and six free-standing parking buildings</p> <p>Commissioning: 2014</p> <p>The development occupies a total site area of approximately 13 hectares with a total net sellable area of 318,996 square metres.</p> <p>The Property consists of two development sites located 300m from Oktyabrskaya Embankment with a total area of 13 hectares. The two sites are separated by a narrow river. Its intended use is for the development of a residential complex with economy class high-rise residential buildings with commercial premises and 6 freestanding parking buildings.</p>	\$42,200,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
9	Smolenskaya Street, 9	<p>The proposed residential complex is planned to be built in 2 stages. The total area of the proposed development will be around 398,000 sq m. Construction of the entire development is scheduled to be completed in Q4 2014.</p> <p>As at the valuation date there were several low-rise old-constructed buildings located on the site that will be demolished prior to beginning of residential construction.</p> <p>The Property is located in the Nevsky District of St. Petersburg close to KAD ring road. The nearest underground station Proletarskaya can be reached by public transport which can be taken from a number of bus stops on Oktybrskaya Embankment.</p> <p>SSMO LenSpetsSMU CJSC holds freehold rights to the Property.</p> <p>Location: Smolenskaya Street, 9, St. Petersburg</p> <p>Descriptions: residential complex with commercial premises and underground parking, constructed using poured concrete technology with brick elements and ventilated facades</p> <p>Commissioning: 2013</p> <p>The development envisages a total site area of 1.84 hectares with a total net sellable area of 70,000 square metres.</p> <p>The subject property is a compound development site intended for a residential development. It is located in the Moskovskiy District of St. Petersburg at Smolenskaya street 9. The current development concept stipulates the development of a residential complex with commercial premises and underground parking. We assume the buildings will be monolithic concrete structures with walls of brick, offering comfort class apartments. The delivery of the Property is scheduled for Q4 2013.</p> <p>The site is located in the Moskovskiy District. The site is bounded by Smolenskaya street in the north and by Kievskaya Street in the south. It goes along residential and nonresidential buildings from east to west. The territory is fenced.</p> <p>The site has irregular shape and a flat, smooth terrain. It is densely populated with industrial and warehouse buildings. Some of them are subject to short-term leases. The site is located in the second line of Moskovskiy prospect. There is Frunzenskaya subway station within 5-7 minutes walk from the property. There is a free car parking along the Kievskaya street.</p> <p>In accordance with the Client information, CJSC SSMO LenSpetsSMU will hold a 100% share in the project upon its completion and following the acquisition of the rights yet to be acquired. The property is of freehold tenure.</p>	\$26,400,000
10	Obukhovskoy oborony prospect, 110	<p>Location: Obukhovskoy oborony prospect, 110, St. Petersburg</p> <p>Descriptions: 10 buildings, constructed using poured concrete technology with brick elements and ventilated facades, including residential buildings, commercial premises and six free-standing parking buildings</p> <p>Commissioning: 2015</p>	\$28,000,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
11	Uralskaya Street, 2	<p>The development occupies a total site area of 3.63 hectares with a total net sellable area of 101,138 square metres.</p> <p>The site is intended for the development of a residential complex with economy class high-rise residential buildings. The proposed residential complex is planned to be built in one phase. Construction of the entire development is scheduled to be completed in 2015.</p> <p>The Property is located in the Nevsky District of St. Petersburg close to KAD ring road. The nearest metro station is Proletarskaya, which is a 5-minute walk from the Property. Public transport to the central part of the city can be taken from a number of bus stops within walking distance of the site. The future residential complex will offer residents excellent Neva river view.</p> <p>CJSC SSMO LenSpetsSMU will hold a 100% share in the project upon its completion and following the purchase of the rights yet to be acquired. The property is of freehold tenure.</p>	\$48,300,000
12	Kremenchugskaya Street, 11	<p>Location: Uralskaya Street, 2, St. Petersburg</p> <p>Descriptions: A brick and cast-in-situ concrete complex with ventilated facades, including residential buildings, commercial premises and parking.</p> <p>Commissioning: 2014</p> <p>The development envisages a total site area of 7 hectares with a total net sellable area of 165,420 square metres.</p> <p>The land plot is intended for the business class residential development. The construction of the entire development is scheduled to be completed in 2015.</p> <p>As at the valuation date there were several old-constructed buildings on the site that will be demolished prior to beginning of residential construction.</p> <p>The Property is located in the Vasileostrovsky District of St. Petersburg. The proximity of the Vasileostrovsky District to the city centre makes it a prestigious location for both living and business. However, the district's inadequate transportation infrastructure and location close to industrial facilities negatively impacts further development. The property can be accessed both from Uralskaya and Odоеvskogo streets.</p> <p>It takes approximately 15 minutes by car to reach the city centre. The nearest metro station is Vasileostrovskaya, which is a 10-minute walk from the Property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.</p> <p>CJSC SSMO LenSpetsSMU will hold a 100% share in the project upon its completion and following the purchase of the rights yet to be acquired.</p>	\$125,800,000
		<p>Location: Kremenchugskaya Street, 11, St. Petersburg</p> <p>Descriptions: 26 buildings, constructed using poured concrete technology with brick elements and ventilated facades, comprising residential buildings, commercial premises, underground parking and social infrastructure</p> <p>Commissioning: 2016</p>	

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
13	Moskovskiy prospect, 115	<p>The development envisages a total site area of 20.80 hectares with a total net sellable area of 459,114 square metres</p> <p>The subject property is a compound development site intended for a residential development. It is located in the Central District of St. Petersburg at Kremenchugskaya Street, 11, Nevsky prospect, 85. The current development concept stipulates the development of a residential complex with commercial premises, underground parking and social infrastructure. We assume the buildings will be monolithic concrete structures with walls of brick, offering comfort class apartments. The delivery of the Property is scheduled for Q4 2016.</p> <p>The site is located in the Central District. It is limited by Poltavskaya and Konnaya streets in the north, by Kremenchugskaya street in the east, Atamanskaya Street in the south, and by a railway line in the west. The site stretches from north to south, has an irregular shape and generally flat topography. It is fenced along the Kremenchugskaya and Atamanskaya streets.</p> <p>In accordance with the Client information, CJSC SSMO LenSpetsSMU will hold a 78% share of the future saleable areas (including residential, commercial premises, offices and underground parking) upon its completion and following the purchase of the rights yet to be acquired. According to the Client in April 2011 it will obtain a long-term leasehold interest in the land plot to prepare a project of territory planning. After the project of territory planning is approved by city authorities CJSC SSMO LenSpetsSMU will obtain a freehold interest in the land plots for construction according to the project.</p> <p>Location: Moskovskiy prospect, 115, St. Petersburg</p> <p>Descriptions: a residential complex, constructed using poured concrete technology with brick elements and ventilated facades, comprising residential buildings, commercial premises, underground parking and social infrastructure.</p> <p>Commissioning: 2016</p> <p>The development occupies a total site area of 12 hectares with a total net sellable area of 259,000 square metres</p> <p>The subject property is a compound development site intended for a residential development. It is located in the Moskovsky District of St. Petersburg at Moskovskiy prospect, 115. The current development concept stipulates the development of a residential complex with commercial premises, underground parking and social infrastructure. We assume the buildings will be monolithic concrete structures with walls of brick, offering comfort class apartments. The delivery of the Property is scheduled for Q4 2016.</p> <p>The site is located in the Moskovsky District on the territory of Vagonmash factory. The factory stretches from the administrative building N° 115 in Moscovskiy prospect in the west — till the railroad. It also goes from Zastavskaya street in the north to Gleb Uspensky street in the south. There is a metro station “Moscovsky Gate” to the north of the site.</p>	\$110,800,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
		In accordance with the Client information, CJSC LenSpetsSMU will hold a 100% share in the project upon its completion and following the purchase of the rights yet to be acquired.	
	Sub-total		\$1,310,200,000

Completed residential developments

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
14.	Sea Cascade	<p>Location: Korablestroiteley Street, 30, St. Petersburg</p> <p>Description: A 3-18 storey brick and cast-in-situ concrete complex with ventilated curtain walls</p> <p>Commissioned: 2006</p> <p>The total net sellable area of the property is 120,946 square metres The Property comprises car parking spaces and non-residential premises located in the underground level of the Sea Cascade residential complex.</p> <p>The residential buildings are from 10 to 17 floors. Most of the apartments have a view of the Gulf of Finland. The complex includes a pedestrian area, green zones and a well developed infrastructure.</p> <p>As at the date of valuation 44 car parking spaces and 313 sq m of non-residential premises located in the underground level were unsold.</p> <p>The Property is located in the Vasileostrovsky District of St. Petersburg. The proximity of the Vasileostrovsky District to the centre of the city makes it a prestigious location for both for living and business. However, the district's inadequate transportation infrastructure negatively impacts further development. The Property is located between Morskaya Embankment and Korablestroiteley Street, in the immediate vicinity to the Gulf of Finland. The north side of the Property borders the Sea Facade residential complex commissioned in 2006.</p> <p>The Property is directly accessed from Morskaya Embankment and Korablestoriteley Street. It takes approximately 25 minutes by car to reach the city centre. The nearest metro station is Primorskaya, which is a 15-minute walk from the Property.</p>	\$1,500,000
15.	Sea Facade	<p>Location: Kapitanskaya Street, 4; Korablestroiteley Street, 32, 34; Morskaya Embankment, 21, St. Petersburg</p> <p>Description: A 7-26 storey brick and cast-in-situ concrete complex with build-in commercial premises. Car parking.</p> <p>Commissioned: 2006</p> <p>The total net sellable area of the property is 237,403 square metres The Property comprises car parking and non-residential premises on the underground level of the Sea Facade residential complex.</p> <p>As at the date of valuation, 11 car parking spaces and 193 sq m of non-residential premises on the underground level were unsold.</p> <p>The residential complex includes 7 to 26 storey brick and cast-in-place concrete buildings with built-in commercial premises. The complex has a pedestrian area, green zones and well developed infrastructure. The complex includes a fitness centre, cafes, offices, kindergarten and entertainment centres.</p>	\$1,100,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
16.	Near Rostral Columns	<p>The Property is located in the Vasileostrovsky District of St. Petersburg. The proximity of the Vasileostrovsky District to the city centre makes it a prestigious location for both for living and business. However, the district's inadequate transportation infrastructure negatively impacts further development.</p> <p>The Property is located between Morskaya Embankment and Kapitanskaya Street, in the immediate vicinity to the Gulf of Finland. The south side of the Property borders the Sea Cascade residential complex commissioned in 2006.</p> <p>The Property is easily accessed from Morskaya Embankment and Kapitanskaya Street. It takes approximately 25 minutes by car to reach the city centre. The nearest metro station is Primorskaya, which is a 15-minute walk from the Property.</p> <p>The unsold car parking spaces and non-residential premises are held by the Morskoy Facade Garage Association by a way of freehold interest.</p> <p>Location: Birzhevoy lane, 2, 4, 6; Volkhovskiy pereulok, 4, St. Petersburg</p> <p>Description: A 3-8 storey brick and cast-in-situ concrete luxury multi-functional complex and detached public buildings.</p> <p>Commissioned: 2006</p> <p>The total net sellable area of the property is 72,081 square metres The Property is a development of car parking and non-residential premises located in the basement level of an elite residential complex.</p> <p>The residential complex was commissioned in 2006.</p> <p>The residential complex includes a number of 7-8 floor residential buildings with apartments, townhouses, office premises, a high quality hotel with spa centre, fitness centre, restaurant and retail premises. The grounds of the complex are secured or gated, monitored by security. The complex opened in 2006.</p> <p>As at the date of valuation 19 car parking spaces and 81.2 sq m of non-residential premises located in the basement level were unsold</p> <p>The Property is located in the Vasileostrovsky District of St. Petersburg. The proximity of the Vasileostrovsky District to the city centre makes it a prestigious location for both for living and business. However, the district's inadequate transportation infrastructure negatively impacts further development.</p> <p>The Development is situated on Birzhevoy lane (Vasilyevsky District), close to the Petrogradsky District. Mainly old residential buildings, hotels, as well as historical places of tourist attraction are in the surrounding area.</p> <p>The Property is easily accessed from Birzhevoy lane. It takes approximately 10 minutes by car to reach the city centre. The nearest metro station is Vasileostrovskaya, which is a 10-minute walk from the Property.</p> <p>The unsold car parking spaces and non-residential premises are held by the Birzhevoy Garage Association by a way of freehold interest.</p>	\$1,200,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
17.	Petrogradsky Etalon	<p>Location: Petrozavodskaya Street, 13, St. Petersburg</p> <p>Description: A 2-12 storey multi-functional brick and cast-in-situ complex in Petrogradsky district. Underground car parking.</p> <p>Commissioned: 2008</p> <p>The development occupies a total site area of 1.7 hectares with a total net sellable area of 40,313 square metres</p> <p>The Property includes unsold underground built-in premises and car parking spaces in the Petrogradsky Etalon business class residential complex, constructed in 2008. The complex includes multi-level 2- to 12-storey brick and monolith construction residential blocks. The built-in commercial premises are situated on the ground floor of the complex</p> <p>The Property is located in the Petrogradsky District of St. Petersburg, in an area where mainly residential and administrative buildings are being constructed. Levashovsky Prospect borders the Property to the north and northeast, Lodeinopolskaya Street to the east and southeast, Petrozavodskaya Street to the southwest, and Barochnaya Street to the west and northwest. The site has an irregular shape.</p> <p>The Property is easily accessed from Petrozavodskaya Street, which leads to one of the district's main transport routes — Maly Prospect of Petrogradskaya Storona. It is also possible to access the Property from Lodeinopolskaya Street, which leads to main roads — Levashovsky Prospect and Bolshaya Zelenina Street. It takes approximately 10 minutes by car to reach the Central District of St. Petersburg in non-peak traffic hours. The nearest metro station is Chkalovskaya, which is a 10-minute walk to the south from the Property. There are also a number of bus and tram stops in walking distance of the site.</p> <p>As at the valuation date, 238.2 sq m of underground built-in premises and 49 car parking spaces were unsold. The unsold car parking spaces and underground built-in premises are held by the Petrogradsky Etalon Garage Association by way of freehold interest.</p>	\$4,050,000
18.	Oktyabrskaya embankment	<p>Location: Prospect Bolshevikov, 79/4, St. Petersburg</p> <p>Description:</p> <p>Commissioned: 2007</p> <p>The total net sellable area of the property is 21,491 square metres</p> <p>The Property consists of two commercial premises located in the semi-basement of the Oktyabrskaya Naberezhnaya residential complex. The premises are in shell and core condition.</p> <p>The Property is located in the Nevsky District of St. Petersburg. The address is Prospect Bolshevikov, 79/4. The Property is easily accessed by car and pedestrians from Sedova Street, which connects the Nevsky District with the city centre. It takes approximately 15 minutes by car to reach the city centre.</p>	\$180,600

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
19.	Rainbow	<p>The nearest metro station is Elizarovskaya, which is a 7-minute walk from the Property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.</p> <p>As at the date of valuation two commercial premises (62.2 sq m and 71.0 sq m) located in the semi-basement were unsold.</p> <p>CJSC SSMO LenSpetsSMU holds freehold rights to the Property.</p> <p>Location: Zagrebky boulevard, 9, lit .A, St. Petersburg</p> <p>Description: A 14-25 storey multi-functional brick and cast-in-situ concrete complex. Underground car parking, a sports centre.</p> <p>Commissioned: 2009</p> <p>The total net sellable area of the property is 148,309 square metres</p> <p>The Property comprises a freehold interest in unsold apartments, car parking spaces, storage spaces, commercial premises and a fitness centre in the Rainbow mass-market residential complex.</p> <p>The Rainbow residential complex was commissioned at the end of 2009, with the exception of the fitness centre, which is currently under construction. The residential complex includes seven high-rise residential buildings, school, kindergarten, fitness centre, parking and commercial premises.</p> <p>The Property is located in the Frunzensky District of St. Petersburg. The address is Malaya Kashtanovaya Alleya 9/1, lit. A and Zagrebky boulevard 9, lit.A.</p> <p>As at the valuation date, 237 sq m of apartment space, 79 car parking spaces, 30 storage spaces, 835 sq m of commercial premises and the 5,705 sq m fitness centre were unsold.</p> <p>CJSC SSMO LenSpetsSMU will hold a 100% share in the fitness centre upon its completion and freehold interest in the unsold apartments and commercial areas. The unsold car parking spaces are held by the Rainbow Garage Association by a way of freehold interest.</p>	\$18,800,000
20.	Polezhaevskiye Houses	<p>Location: Rudneva Street, 9/3, St. Petersburg</p> <p>Description: Two 24-storey brick and cast-in-situ concrete buildings with ventilated curtain walls. Split level underground car parking.</p> <p>Commissioned: 2008</p> <p>The development envisages a total site area of approximately 0.79 hectares with a total net sellable area of 33,127 square metres</p> <p>The Property is a freehold interest in the unsold built-in commercial premises and car parking spaces in the Polezhaevskiye Houses mass market residential complex.</p> <p>The residential complex includes two 24-storey buildings located above a car park and built-in commercial premises, which form a stylobate. The construction of the complex was completed in 2008.</p>	\$4,400,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
21.	Golden Bay	<p>As at the valuation date, 801.6 sq m of built-in commercial space and 145 car parking spaces were unsold.</p> <p>The Property is located in the Kirovsky District of St. Petersburg. The address is 48, building. 1, Marshal Zhukov Prospect</p> <p>In terms of accessibility, the Property benefits from being close to a number of bus stops, and within reasonable proximity of a railway station and the city's ring road (KAD), which provide convenient access to the city centre. It takes approximately 40 minutes by car to reach the city centre. The nearest metro station Prospect Veteranov, which is a 7-10 minute drive from the Property.</p> <p>CJSC SSMO LenSpetsSMU holds freehold interest in the unsold commercial areas. The unsold car parking spaces are held by the Polezhaevskiy Garage Association by way of freehold interest.</p> <p>Location: Primorsky prospect, 137 / 1, 2; Yakhtennaya Street, 1/1, 3/1, 2, St. Petersburg</p> <p>Description: A 15-25 storey multi-functional brick and cast-in-situ concrete complex</p> <p>Commissioned: 2008</p> <p>The development occupies a total site area of approximately 7.5 hectares with a total net sellable area of 245,793 square metres</p> <p>The Property includes the unsold built-in commercial premises and car parking spaces in the existing Golden Bay mass-market residential complex, constructed in 2008. The complex is brick and monolith constructed residential buildings with 15-18 storey sections and 25-storey towers. The built-in premises on the first levels can be used for commercial purposes. In the upper residential levels there are some two-storey apartments, penthouses.</p> <p>The Property is located in the northwest part of St. Petersburg in the Primorsky District. It borders residential construction to the north and west, an existing road to the east and planned highway number 21, which is the future extension of Primorsky Prospect. The developed site is an elongated land plot along the Gulf of Finland.</p> <p>The Property is easily accessed from Yakhtennaya Street, which leads to the main roads Primorsky Prospect and Savushkina Street. It takes approximately 15-20 minutes by car to reach the city centre in non-peak traffic hours. The nearest metro station is Staraya Derevnya, which is a 25-30 minute walk from the Property. There are bus and tram stops in walking distance of the Property, with bus routes to the central part of the city.</p> <p>As at the valuation date, 24.4 sq m of commercial space, and 97 car parking spaces were unsold.</p> <p>CJSC SSMO LenSpetsSMU holds freehold interest in the unsold commercial areas. The unsold car parking spaces are held by the Golden Bay Garage Association and Golden Bay-2 by way of freehold interest.</p>	\$6,600,000
22.	Grazhdanka City	<p>Location: Nauki Prospect, 17/6, St. Petersburg</p>	\$1,290,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
23.	Grazhdanka City-2	<p>Description: A 17-23 storey brick and cast-in-situ concrete complex. Underground car parking</p> <p>Commissioned: 2007</p> <p>The total net sellable area of the property is 50,479 square metres</p> <p>The Property includes unsold commercial premises and car parking spaces in the Grazhdanka City mass-market residential complex. The Property is located at 17/6, Nauki Prospect, St. Petersburg.</p> <p>The residential complex was commissioned in 2007. Its saleable area is 50,479 sq m and includes four 17-23 storey sections with underground parking.</p> <p>The Property is located in the Kalininsky District of St. Petersburg. The Kalininsky District is located in the north-eastern part of St. Petersburg, in the Grazhdanka microdistrict, which is the most popular residential area among potential buyers. The Property is surrounded mainly by residential buildings.</p> <p>The Property is accessed from Nauki Prospect. It takes approximately 30 minutes by car to reach the city centre. The Akademicheskaya metro station is a 2-3 minute walk from the Property.</p> <p>As at the date of valuation 130.7 sq m of unsold commercial premises and 61 car parking spaces were unsold.</p> <p>CJSC SSMO LenSpetsSMU holds freehold interest in the unsold commercial premises. Unsold car parking spaces are held by the Grazhdanka-City Garage Association by a way of freehold interest.</p> <p>Location: Nauki Prospect, 17/2, St. Petersburg</p> <p>Description: A 17-23 storey brick and cast-in-situ concrete multi-functional brick and cast-in-situ concrete complex. Underground car parking</p> <p>Commissioned: 2007</p> <p>The total net sellable area of the property is 44,073 square metres</p> <p>The Property includes apartment and car parking spaces in the Grazhdanka City-2 mass-market residential complex. The Property is located at St. Petersburg, Nauki Prospect, 17/2.</p> <p>The residential complex was commissioned in 2007. The car park was put into operation in Q1 2010. The saleable area of the overall development is 44,073 sq m. The residential complex consists of five 17-23 storey sections with underground parking.</p> <p>The Property is located in the Kalininsky District of St. Petersburg. The Kalininsky District is located in the north-eastern part of St. Petersburg. The Property is located in the Grazhdanka microdistrict, which is the most popular residential area among potential buyers. The Property is surrounded mainly by residential buildings.</p>	\$760,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
24.	New Constellation	<p>The Property is accessed from Nauki Prospect. It takes approximately 30 minutes by car to reach the city centre. Akademicheskaya metro station is a 3-5 minute walk from the Property. As at the date of valuation an apartment (total area of 93.2 sq m) and 23 car parking spaces were unsold.</p> <p>CJSC SSMO LenSpetsSMU holds the unsold apartments via a freehold interest. The unsold car parking spaces are held by the Grazhdanka City Garage Association by way of freehold interest.</p> <p>Location: Prosvescheniya prospect, 99, St. Petersburg</p> <p>Description: A 20-25 storey multi-functional brick and cast-in-situ concrete complex. Underground car parking</p> <p>Commissioned: 2009</p> <p>The total net sellable area of the property is 133,423 square metres</p> <p>The Property includes apartments, car parking spaces in the underground car park and non-residential premises located on the basement level and first floors of the New Constellation mass-market residential complex. The residential complex consists of four buildings, of which buildings 1 and 4 are standalone buildings and buildings 2 and 3 are semi-detached buildings. The buildings have 20-25 storeys. As at the valuation date, the residential complex had been commissioned.</p> <p>The Property is located in the Kalininsky District of St. Petersburg. The Kalininsky District is in the north-eastern part of St. Petersburg and is the most populous of all of the city's districts. The Property is located in Grazhdanka microdistrict, which is the most popular residential area among potential buyers.</p> <p>The Property's address is Prosvescheniya Prospect, 99, lit. A, buildings 1-4. It is located at the intersection of Prosvescheniya Prospect and Rustavelli Street and surrounded mostly by residential buildings.</p> <p>The Property is accessible from Prosvescheniya Prospect, Rustavelli Street and Kishirskaya Street. It takes approximately 30 minutes by car to reach the city centre, assuming that the traffic is not congested.</p> <p>As at the date of valuation apartments with total area 139.6 sq m, 258 car parking spaces in the underground car park and 613.9 sq m of non-residential premises located on the basement level and first floors were unsold.</p> <p>The nearest metro station is Grazhdanskiy Prospect, which is about a 5-7 minute walk. There are also bus stops within walking distance of the Property. The Property is fairly close to the railway station, Murino, and the KAD (the city's ring road).</p> <p>CJSC SSMO LenSpetsSMU holds a freehold interest in the unsold apartments and non-residential premises. The unsold car parking spaces are held by the New Constellation Garage Association by a way of freehold interest.</p>	\$10,500,000
25.	Invigorating Stream	<p>Location: Ushinskogo Street, 2/1, lit. A , St. Petersburg</p>	\$4,000,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
		<p>Description: A 16-storey brick and cast-in-situ concrete building with build-in commercial premises. Underground car parking</p> <p>Commissioned: 2008</p> <p>The total net sellable area of the property is 59,359 square metres</p> <p>The Property is apartments and car parking spaces in the underground car park in the Invigorating Stream mass-market residential complex. The residential complex is a 16-storey building put into operation in 2008.</p> <p>The Property is located in the Kalininsky District of St. Petersburg. The Kalininsky District is in the north-eastern part of St. Petersburg and is the most populous of all of the city's districts. The Property is located in the Grazhdanka microdistrict, which is the most popular residential area among potential buyers.</p> <p>The Property's address is Ushinskogo Street, 2, bld. 1, lit. A. It is located at the intersection of Lunacharskogo Prospect and Ushinskogo Street. The Property is surrounded mostly by residential buildings.</p> <p>The Property is accessible from Ushinskogo Street and Lunacharskogo Prospect. It takes approximately 40 minutes by car to reach the city centre.</p> <p>The nearest metro station is Grazhdanskiy Prospect, which is a 15-20 minute walk from the Property or a short bus ride.</p> <p>As at the date of valuation apartments with a total area of 133.1 sq m and 9 car parking spaces in the underground car park were unsold.</p> <p>CJSC SSMO LenSpetsSMU holds a freehold interest in the unsold apartments and non-residential premises. The unsold car parking spaces are held by the Invigorating Stream Garage Association by a way of freehold interest.</p>	
		Sub-total	\$54,380,600

Standing commercial real estate properties

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
26.	Smolenka River Business Centre	<p>Location: Vasilievsky Island, Smolenka River Embankment, 33, St. Petersburg</p> <p>Description: A 7-storey building for shopping and offices</p> <p>Commissioned: 2009</p> <p>The development occupies a total site area of approximately 0.375 hectares with a total net sellable/leasable area of 13,028 square metres</p> <p>The Property comprises several premises in the new existing class B Smolenka River Business Centre. It was put into operation in January 2009.</p> <p>The total area of the valued premises is 8,911 sq m, of which approximately 46% is leased by different companies. The number of unsold underground parking spaces is 61 lots.</p> <p>The Property is a high-quality business centre, consisting of three zones — underground car park, retail premises on the first and second floors, and office premises on the third to seventh floors. Each zone has a separate entrance. Office premises are offered in fitted-out condition. The office building is fully equipped with all necessary communications engineering. The retail area has three separate entrances and its own lift.</p> <p>The business centre is located in the central part of Vasilyevsky Island, which is a part of the Vasileostrovsky District. Direct transport access to the Property is from the Smolenka River Embankment. It takes approximately 15 minutes by car to reach the city centre in non-peak traffic hours. The nearest metro stations are Vasileostrovskaya and Primorskaya, both of which are a 5-minute drive from the Property.</p> <p>The Property is situated on a land plot with a total area of 0.3749 hectare. According to information provided by the Client, since the state commissioning of the office building on 30 January 2009, the documents for the land plot have not yet been formalised. During the construction period the land plot was held by the St. Petersburg World Financial and Trade Centre CJSC by way of leasehold (Land lease agreement on investment conditions as of 1 February 2006 #01/3KC-04343). The land plot is categorised as settlement land and its permitted use is for the construction of a retail and office complex.</p> <p>CJSC SSMO LenSpetsSMU holds a freehold interest in the premises.</p>	\$10,600,000
27.	Stock Exchange Business Centre	<p>Location: Vasilievsky Island, the 26th line, building 15, St. Petersburg</p> <p>Description: A 16-storey business centre</p> <p>Commissioned: 2009</p> <p>The development occupies a total site area of 0.35 hectares with a total net sellable/leasable area of 21,263 square metres</p>	\$16,400,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
28.	Aura Trading and Exhibition Centre	<p>The Property includes 4,214.8 sq m of built-in office premises in the new existing Class B Stock Exchange Business Centre. As at the valuation date, a part of the premises (216.9 sq m) has been leased on a long-term basis; the remaining (3,997.9 sq m) is unoccupied. The business centre was put into operation in February 2010. There are about 250 parking spaces in front of the main entrance and to the side facing Sobchak's Square.</p> <p>The Stock Exchange Business Centre is a high-quality business centre and one of the modern buildings dominating Vasilyevsky Island. It is fully equipped with all necessary communications. The premises of St. Petersburg's Exchange are occupied three levels of the building. The other premises are mainly offices.</p> <p>The business centre is located in the central part of Vasilyevsky Island, which is a part of the Vasileostrovsky District. Klubny Lane borders the building to the east, Bolshoy Prospect (Vasilyevsky Island) to the south, the 26-27th lines to the west and Sobchak's Square to the north.</p> <p>Mainly residential, social and administrative buildings are in the surrounding area. The business centre is easily accessed from Klubny Lane and the 26-27th lines of Vasilyevsky Island. It takes approximately 5-10 minutes by car to reach St. Petersburg's Central District in non-peak traffic hours. Vasileostrovskaya is the nearest metro station and is 5-10 minutes by car from the business centre. There are some bus stops within walking distance from the Property along Bolshoy Prospect and 26-27th lines. There are also some tram stops within walking distance along Sredny Prospect.</p> <p>CJSC SSMO LenSpetsSMU holds a freehold interest in the premises. The land plot is held by CJSC Stock Exchange Saint-Petersburg by a way of freehold interest.</p> <p>Location: Lakhta, Lakhtinsky prospect, 85, St. Petersburg</p> <p>Description: A 3-storey trading and exhibition centre Commissioned: 2008</p> <p>The development occupies a total site area of 1.32 hectares with a total net sellable/leasable area of 9,166 square metres</p> <p>The Property is the new existing Aura shopping and exhibition complex built in 2008. The gross building area of the 3-storey complex is 14,653.3 sq m and net leasable area is 9,166.42 sq m. There are 270 parking spaces in front of the building's facade and 1,300 spaces near the complex.</p> <p>As at the valuation date, no leases have been signed for any of the complexes premises.</p> <p>The Property is located in the Lakhta settlement in the northwest part of the Primorsky District. The Property borders the Primorskoe highway to the north, Lakhtinsky Prospect to the south, the Garden City shopping complex to the west and Mikhailovskaya Street to the east.</p>	\$24,800,000

#	<u>Property Name</u>	<u>Location, Description, Tenure & Tenancy</u>	<u>Market Value of the Company's share, US\$</u>
		<p>The 1.3 hectare site has an irregular shape, elongated from east to west. The Property is easily accessed from Primorskoe highway, if leaving the city, and from Lakhtinsky Prospect if driving from the Kurortny and Vyborgsky Districts of the Leningrad Region. It takes approximately 25-30 minutes by car to reach the centre of St. Petersburg in non-peak traffic hours. It takes about 5-10 minutes to reach the intersection of Primorskoe highway and St. Petersburg's Circle Road in the Gorskaya settlement. The nearest railway station, Lakhta, is a 5-minute walk from the Property. There are some bus stops within walking distance of the Property along Primorskoe highway and Lakhtinsky Prospect.</p> <p>CJSC SSMO LenSpetsSMU holds a freehold title.</p>	
		Sub-total	\$51,800,000
	TOTAL		\$1,416,380,600

APPENDIX 2 — Schedule of Valuations

ETALON GROUP LIMITED
Portfolio Assets
Schedule of Valuations
(Valuation as at 31 December 2010)

Residential projects under development

#	Property Name	Site Area, ha	Net sellable/ leasable area, including car parking**, sq m (100% interest)	Unsold/ unleased net area, including car parking**, sq m (100% interest)	Unsold/ unleased car parking, lots	Q4 2010 average market sale prices, US\$/sq m/ Market sale prices for parking, US\$/lot***	Construction budget, US\$	Estimated outstanding construction costs, US\$*	Outstanding payments for the areas sold, US\$	Estimated outstanding social infrastructure construction costs, US\$*	Valued interest, % (Etalon's Legal Share)	Market Value of the Company's share, US\$
1.	Emerald Hills	80	868,034	846,678	4,773	Residential: 1,900 Commercial: 2,000 Parking: 20,000	1,071,985,000	1,019,765,000	32,690,699	116,947,729	97% in the income from residential premises and 100% in the income from social premises	257,600,000
2.	Etalon-City	11.24	269,517	269,517	2,022	Residential: 3,000 Parking: 30,000	371,505,790	371,505,790	n/a	10,452,000	93.15% in the saleable residential area and 100% in the built-in commercial premises on the ground floors of the residential buildings and underground parking	92,400,000
3.	Jubilee Estate	35.40	601,758	376,509	2,201	Residential: 2,000 Parking: 19,000	737,714,002	207,800,527	68,758,496	61,788,000	100%	415,800,000

#	Property Name	Site Area, ha	Net sellable/ leasable area, including car parking**, sq m (100% interest)	Unsold/ unleased net area, including car parking**, sq m (100% interest)	Unsold/ unleased car parking, lots	Q4 2010 average market sale prices, US\$/sq m/ Market sale prices for parking, US\$/lot***	Construction budget, US\$	Estimated outstanding construction costs, US\$*	Outstanding payments for the areas sold, US\$	Estimated outstanding social infrastructure construction costs, US\$*	Valued interest, % (Eitalon's Legal Share)	Market Value of the Company's share, US\$
4.	Talisman	0.4788	14,599	8,158	110	Residential: 3,600 Parking: 36,000	20,346,000	4,905,000	6,807,606		100%	19,400,000
5.	Prestige	0.3487	21,057	20,012	96	Residential: 3,580 Parking: 38,700	36,227,000	29,076,000	2,081,759		100%	26,000,000
6.	Etude	0.4211	22,723	14,981	138	Residential: 2,300 Commercial: 1,770 Parking: 18,250	28,154,000	22,025,000	8,689,204		100%	11,000,000
7.	Orbit	6.89	207,405	168,589	926	Residential: 2,360 Commercial: 2,190 Parking: 22,700; 16,800	243,621,000	191,451,000	30,712,121		100%	106,500,000
8.	Oktyabrskaya embankment 118	10.4059 2.6879	318,996	318,996	2,182	Residential: 1,800 Commercial: 1,770 Parking: 17,000	375,841,000	375,841,000			100%	42,200,000
9.	Smolenskaya str. 9	1.84	70,000	70,000	257	Residential: 2,600 Parking: 20,000	106,623,000	106,623,000			100%*****	26,400,000

#	Property Name	Site Area, ha	Net sellable/ leasable area, including car parking**, sq m (100% interest)	Unsold/ unleased net area, including car parking**, sq m (100% interest)	Unsold/ unleased car parking, lots	Q4 2010 average market sale prices, US\$/sq m/ Market sale prices for parking, US\$/lot***	Construction budget, US\$	Estimated outstanding construction costs, US\$*	Outstanding payments for the areas sold, US\$	Estimated outstanding social infrastructure construction costs, US\$*	Valued interest, % (Etalon's Legal Share)	Market Value of the Company's share, US\$
10.	Obukhovskoy oborony prospect 110	3.6311	101,138	101,138	746	Residential: 2,300 Commercial: 2,100 Parking: 19,000	134,345,000	134,345,000			100%*****	28,000,000
11.	Uralskaya str. 2	7.00	165,420	165,420	600	Residential: 2,900 Commercial: 2,500 Parking: 28,800	306,579,000	306,579,000		2,880,000	100%*****	48,300,000
12.	Kremenchugskaya str. 11	20.80	459,114	459,114	1638	Residential: 3,300 Parking: 45,000	789,416,000	789,416,000		5,856,000	78%*****	125,800,000
13.	Moskovsky prospect 115	12.00	259,000	259,000	1286	Residential: 2,800 Parking: 25,000	431,289,000	431,289,000		11,640,000	100%*****	110,800,000

* In terms of construction costs and outstanding construction costs, we have had regard to those budgeted costs provided to us by the Company and have taken these into account in considering our opinions of value. However, we have also had regard to current construction rates passing in the market which a prospective purchaser may deem appropriate to adopt in constructing each individual scheme. Although in some instances we have adopted the budgeted costs provided to us by the Company, in some cases we have opted to use our own opinions of costs. In those instances where we adopted our own opinion of costs we would note that we are not professional cost consultants and these figures ought to be read in light of this. Our opinions as to costs have been arrived at on the basis of our experience of valuation of similar properties and on the basis of the cost information obtained from other developers, rather than from a qualified cost consultant. Social infrastructure costs are included in the total construction budget.

** Net sellable area for parking is calculated assuming an average area of a parking lot of 30 sq.m

*** Residential sale prices are inclusive of VAT. Commercial sale prices and parking sale prices are exclusive of VAT

**** Residential area and parking

***** The shares shown will be Etalon's legal share upon completion of the acquisition process.

Completed residential developments

#	Property Name	Site Area, ha	Net sellable/ leasable area, excluding car parking, sq m	Unsold/unleased net area, including car parking, sq m*	Unsold/unleased car parking, lots	Q4 2010 average market sale prices, US\$/sq m/ Market sale prices for parking, US\$/lot**		Construction budget, US\$	Estimated outstanding construction costs, US\$	Outstanding payments for the areas sold, US\$	Valued interest, % (Eitalon's Legal Share)	Market Value of the Company's share, US\$
						US\$/sq m	US\$/lot**					
1.	Sea Cascade	n/a	120,946	1,633.4	44	Parking: 27,180	—	—	187,428	100%	1,500,000	
2.	Sea Facade	n/a	237,403	523	11	Parking: 24,499	—	—	744,648	100%	1,100,000	
3.	Near Rostral Columns	n/a	69,152	651.8	19	Parking: 54,112	—	—	127,857	100%	1,200,000	
4.	Petrogradsky Eitalon	1.7	33,224	1,708.2	49	Residential: 3,400 Parking: 44,500	—	—	2,115,818	100%	4,050,000	
5.	Oktyabrskaya embankment	n/a	21,491	133.2	—	Commercial: 1,600	—	—	—	100%	180,600	
6.	Rainbow	n/a	142,804	9,177	79	Residential: 2,320 Commercial: 1,910	—	7,955,000	18,430,603	100%	18,800,000	
7.	Polezhaevskie Houses	0.7926	21,800	5,218	145	Parking: 21,170 Storage: 2,880; Fitness Centre: 1,270	—	—	2,153,992	100%	4,400,000	
8.	Golden Bay	7.511	215,856	2,934.4	97	Commercial: 1,500 Parking: 13,052	—	—	3,893,354	100%	6,600,000	
9.	Grazhdanka City	n/a	46,266	1,960.7	61	Residential: 2,400 Parking: 32,500	—	—	222,498	100%	1,290,000	
10.	Grazhdanka City-2	n/a	40,739	783.2	23	Commercial: 440 Parking: 23,800; 14,280	—	—	157,018	100%	760,000	
11.	New Constellation	n/a	118,065	8,493.5	258	Residential: 2,390 Parking: 23,100	—	—	5,224,518	100%	10,500,000	
12.	Invigorating Stream	n/a	54,198	403.1	9	Residential: 2,520 Commercial: 2,240 Parking: 24,100	—	—	4,297,865	100%	4,000,000	

* Net sellable area for parking is calculated assuming an average area of a parking lot of 30 sq.m

** Residential sale prices are inclusive of VAT. Commercial sale prices and parking sale prices are exclusive of VAT

Standing commercial real estate properties

#	Property Name	Site Area, ha	Net sellable/ leasable area, excl. car parking, sq m	Unsold/unleased net area, including car parking, sq m*	Unsold/unleased car parking, lots	Estimated market rental, US\$ per annum excluding VAT	Outstanding payments for the areas sold, US\$	Q4 2010 market rental rates US\$/sq m/year/ Market sale prices, US\$/sq m**	Valued interest, % (Eralon's Legal Share)	Market Value of the Company's share, US\$
1.	Smolenka River Business Centre	0.3749	9,014.9	6,811.2	61	2,305,000	292,887	Market rent (incl. OPEX and VAT) Office: 300 Retail: 250 Parking: 200 Parking: 250 Sale price: 2,750	100%	10,600,000
2.	Stock Exchange Business Centre	0.35	21,263.0	3,997.90	—	—	6,156,134	Market rent (net of OPEX and VAT): 385	100%	16,400,000
3.	Aura Trading and Exhibition Centre	1.32	9,166.42	9,166.42	—	3,528,562	—	—	100%	24,800,000

* Net sellable area for parking is calculated assuming an average area of a parking lot of 30 sq.m

** Commercial sale prices, parking sale prices and market rental rates for commercial space are exclusive of VAT.

** Commercial sale prices, parking sale prices and market rental rates for commercial space are exclusive of VAT.

APPENDIX 3 — Schedule of year by year commissioning levels

ETALON GROUP LIMITED
Portfolio Assets
Schedule of year by year commissioning levels
(Valuation as at 31 December 2010)

Project	Status	NSA, m2	Commissioning period	2011	2012	2013	2014	2015	2016
Etalon-City stage 1	design stage	124,763	2013	—	—	124,763	—	—	—
Etalon-City stage 2	design stage	144,753	2014	—	—	—	144,753	—	—
Etude	under construction	22,723	2012	—	22,723	—	—	—	—
Emerald Hills stage 1	under construction	97,594	2011	97,594	—	—	—	—	—
Emerald Hills stage 2	under construction	108,065	2012	—	108,065	—	—	—	—
Emerald Hills stage 3	design stage	213,653	2013	—	—	213,653	—	—	—
Emerald Hills stage 4	design stage	179,166	2014	—	—	—	179,166	—	—
Emerald Hills stage 5	design stage	147,835	2015	—	—	—	—	147,835	—
Emerald Hills stage 6	design stage	121,720	2016	—	—	—	—	—	121,720
Jubilee Estate stage 1	completed	367,854	completed	—	—	—	—	—	—
Jubilee Estate stage 2	under construction	136,730	2011	136,730	—	—	—	—	—
Jubilee Estate stage 3	under construction	97,173	2012	—	97,173	—	—	—	—
Moskovsky prospect stage 1	design stage	150,000	2015	—	—	—	—	150,000	—
Moskovsky prospect stage 2	design stage	109,000	2016	—	—	—	—	—	109,000
Kremenchugskaya street stage 1	design stage	50,000	2014	—	—	—	50,000	—	—
Kremenchugskaya street stage 2	design stage	200,000	2015	—	—	—	—	200,000	—
Kremenchugskaya street stage 3	design stage	209,114	2016	—	—	—	—	—	209,114
Oktyabrskaya embankment stage 1	design stage	28,258	2013	—	—	28,258	—	—	—
Oktyabrskaya embankment stage 2	design stage	290,738	2014	—	—	—	290,738	—	—
Orbit stage 1	under construction	70,136	2011	70,136	—	—	—	—	—
Orbit stage 2	under construction	137,268	2012	—	137,268	—	—	—	—
Prestige	under construction	21,057	2012	—	21,057	—	—	—	—
Obukhovskoy oborony prospect stage 1	design stage	50,000	2013	—	—	50,000	—	—	—
Obukhovskoy oborony prospect stage 2	design stage	51,138	2015	—	—	—	—	51,138	—
Smolenskaya str	design stage	70,000	2013	—	—	70,000	—	—	—
Talisman	under construction	14,599	2011	14,599	—	—	—	—	—
Uralskaya str stage 1	design stage	90,000	2014	—	—	—	90,000	—	—
Uralskaya str stage 2	design stage	75,420	2014	—	—	—	75,420	—	—
Total		3,378,758		319,059	386,286	486,674	830,077	548,973	439,834

The table above demonstrates the year by year project commissioning levels, subject to Company's own estimates. The numbers reflect the estimated by the Company volumes of net sellable area scheduled to be commissioned on a year by year basis, including residential, commercial and car parking uses.

In the professional opinion of Jones Lang LaSalle, the above Company's commissioning plan is reasonable. Ultimately, Company's estimated commissioning dates and volumes may differ from actual commissioning levels achieved in the future

**APPENDIX 4 — General Principles Adopted
In The Preparation Of Valuation And Reports**

These are the general principles upon which our Valuations and Reports are normally prepared; they apply unless we have specifically mentioned otherwise in the body of the report. Where appropriate, we will be pleased to discuss variations to suit any particular circumstances, or to arrange for the execution of structural or site surveys, or any other more detailed enquiries.

These General Principles should be read in conjunction with Jones Lang LaSalle's General Terms and Conditions of Business.

1. RICS Valuation Standards:

Valuations and Reports are prepared in accordance with the Practice Statements contained in the RICS Valuation Standards (Sixth Edition) published by the Royal Institution of Chartered Surveyors, by valuers who conform to the requirements thereof.

Except where stated, Jones Lang LaSalle and Jones Lang LaSalle Hotels are External Valuers.

2. Valuation Basis:

Properties are generally valued to "Market Value" or alternatively another basis of valuation as defined in the Valuation Standards. Market Value is defined as "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The full definition of any other basis, which we may have adopted, is either set out in our report or in the Valuation Standards.

There are interpretative commentaries on the definitions which are set out in the Valuation Standards and which we will be pleased to supply on request.

In our valuations no allowances are made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. All property is considered as if free and clear of all mortgages or similar financial encumbrances, which may be secured thereon.

Unless otherwise stated, our valuations are of each separate property. Portfolio valuations are aggregates of individual valuations rather than the portfolio having been valued as a whole. No allowance is made for the effect of the simultaneous marketing of all/or a proportion of the properties.

3. Source of Information:

We accept as being complete and correct the information provided to us, by the sources listed, as to details of tenure, tenancies, tenant's improvements, planning consents and other relevant matters, as summarised in our certificate.

4. Documentation:

We do not normally read leases or documents of title. We assume, unless informed to the contrary, that each property has a good and marketable title, that all documentation is satisfactorily drawn and that there are no encumbrances, restrictions, easements or other outgoings of an onerous nature, which would have a material effect on the value of the interest under consideration, nor material litigation pending. Where we have been provided with documentation we recommend that reliance should not be placed on our interpretation without verification by your lawyers.

5. Tenants:

Although we reflect our general understanding of a tenant's status in our valuations, enquiries as to the financial standing of actual or prospective tenants are not normally made unless specifically requested. Where properties are valued with the benefit of lettings, it is therefore assumed, unless we are informed otherwise, that the tenants are capable of meeting their financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.

6. Measurements:

Where appropriate, all measurement is carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors, except where indicated or where we specifically state that we have relied on another source.

7. Town Planning and Other Statutory Regulations:

Information on Town Planning, wherever possible, is obtained verbally from the Local Planning Authority. We do not make formal legal enquiries and, if reassurance is required, we recommend that verification be obtained from lawyers that:

- 7.1. the position is correctly stated in our certificate;
- 7.2. the property is not adversely affected by any other decisions made, or conditions prescribed, by public authorities;
- 7.3. there are no outstanding statutory notices.

Outside the UK however, it is often not possible to make such verbal enquiries.

Our valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including enactments relating to fire regulations, access and use by disabled persons and control and remedial measures for asbestos in the workplace.

8. Structural Surveys:

Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we therefore do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention.

9. Deleterious Materials:

We do not normally carry out investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example, high-alumina cement concrete, woodwool as permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our valuations are on the basis that no such materials or techniques have been used.

10. Site Conditions:

We do not normally carry out investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these matters.

11. Environmental Contamination:

Unless expressly instructed, we do not carry out site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

12. Insurance:

Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms. For example in regard to the following:

Composite Panels

We understand that a number of insurers are substantially raising premiums, or even declining to cover, buildings incorporating certain types of composite panel. Information as to the type of panel used is not normally available, and the market response to this issue is still evolving. Accordingly, our opinions of value make no allowance for the risk that insurance cover for any property may not be available, or may only be available on onerous terms, or for any adverse market reaction to the presence of such panels.

Flood and Rising Water Table

Our valuations have been made on the assumption that the properties are insured against damage by flood and rising water table.

13. Currency:

Valuations are prepared in Sterling or, if outside the UK, the appropriate local currency. In some countries, particularly where inflation rates are unduly high, hotel values are often expressed in an international currency (eg. US Dollars).

14. Value Added Tax:

Valuations are prepared and expressed exclusive of VAT payments, unless otherwise stated.

15. Outstanding Debts:

In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

16. Confidentiality and Third Party Liability:

Our Valuation and the Schedules are for the specific purpose to which they refer and form part of the prospectus. Before this Valuation Certificate, or any part thereof, is reproduced or referred to in any other document, circular or statement and before its contents, or any part thereof, are otherwise disclosed orally or otherwise to a third party, the Valuer's written approval as to form and context of such publication or disclosure must first be obtained.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our Valuation Certificate are combined with other reports.

APPENDIX 5 — Extract from the RICS Valuation Standards (6th edition)

Market Value

Definition and Interpretive Commentary. Reproduced from the RICS Valuation Standards 6th Edition, PS 3.2

Valuations based on Market Value (MV) shall adopt the definition, and the interpretive commentary, settled by the International Valuation Standards Committee.

Definition

‘The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.’

Interpretive Commentary, as published in International Valuation Standard 1

3.2.

The term property is used because the focus of these Standards is the valuation of property. Because these Standards encompass financial reporting, the term Asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

3.2.1 ‘The estimated amount ...’

Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm’s-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

3.2.2 ‘... a property should exchange ...’

Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

3.2.3 ‘... on the date of valuation ...’

Requires that the estimated Market Value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

3.2.4 ‘... between a willing buyer ...’

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute ‘the market’. A valuer must not make unrealistic Assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.

3.2.5 ‘... a willing seller ...’

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the ‘willing seller’ is a hypothetical owner.

3.2.6 ‘... in an arm’s-length transaction ...’

Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because

of an element of Special Value (defined in IVSC Standard 2, paragraph 3.8). The Market Value transaction is presumed to be between unrelated parties each acting independently.

3.2.7 ‘... after proper marketing ...’

Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

3.2.8 ‘... wherein the parties had each acted knowledgeably, prudently ...’

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

3.2.9 ‘... and without compulsion.’

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

3.3

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

Commentary

- a. The basis of Market Value is an internationally recognized definition. It represents the figure that would appear in a hypothetical contract of sale at the valuation date. Valuers need to ensure that in all cases the basis is set out clearly in both the instructions and the Report.
- b. Market Value ignores any existing mortgage, debenture or other charge over the property.
- c. In the conceptual framework in IVS quoted above (para 3.2.1) it is clear that any element of special value that would be paid by an actual special purchaser at the date of valuation must be disregarded in an estimate of Market Value. Special value includes synergistic value, also known as marriage value.
- d. IVS describes special value and synergistic value as follows:
 - Special Value can arise where an asset has attributes that make it more attractive to a particular buyer, or to a limited category of buyers, than to the general body of buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any element of Special Value because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.
 - Synergistic Value can be a type of Special Value that specifically arises from the combination of two or more assets to create a new asset that has a higher value than the sum of the individual assets.
 - When Special Value is reported, it should always be clearly distinguished from Market Value.
- e. Notwithstanding this general exclusion of special value where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future, this element of ‘hope value’ is reflected in Market Value. Examples of where the hope of additional value being created or obtained in the future may impact on the Market Value include:
 - the prospect of development where there is no current permission for that development; and
 - the prospect of ‘synergistic value’ arising from merger with another property or interests within the same property at a future date.

f. When Market Value is applied to plant & equipment, the word ‘asset’ may be substituted for the word ‘property’. The valuer must also state, in conjunction with the definition, which of the following additional assumptions have been made:

— that the plant & equipment has been valued as a whole in its working place; or

— that the plant & equipment has been valued for removal from the premises at the expense of the purchaser.

Further information on plant & equipment valuation, including typical further assumptions that may be appropriate in certain circumstances, can be found in GN 2 and in IVS GN 3 — Plant & equipment.

g. Where the property includes land which is mineral bearing, or is suitable for use for waste management purposes, it may be necessary to make assumptions to reflect either the potential for such uses or, where the land is already in such use, to reflect any potential future uses that may be relevant. Further information on the valuation approach in these cases can be found in GN 4.

h. Where the property is personal property it may be necessary to interpret Market Value as it applies to different sectors of the market. Further information on this type of valuation can be found in IVSC GN 4 and 5.

APPENDIX 6 — Valuation Methodology

Valuation Methodology

The Properties comprise a number of residential development projects, premises within completed residential developments and standing investment assets.

The development properties are in differing stages of development, some being close to completion and others being at the very early stages of the development process. When undertaking the valuation of development sites, there are generally two approaches which can be adopted, the approach selected being generally dependent upon the specific market and characteristics of the property concerned.

The first approach which can be adopted is referred to as the 'sales comparable' approach. Where this relates to development sites, the approach involves the analysis of comparable transactions which are generally reported on an area basis, to which adjustments can then be made to reflect differences in location, size, volume of proposed development etc. Adoption of the sales comparison approach necessitates the existence of detailed information on the various transactions available. Where such information is available, for example from a database held by a Land Registry, then this approach can be particularly useful and enables the accurate assessment of the value of properties comprising sites held for development.

Adopting the sales comparison approach for the valuation of development sites in Russia is particularly difficult as a result of the lack of transparency in the market and a general shortage of detailed comparable evidence. This situation can hinder the ability to accurately compare the sale of development sites, meaning that the approach is generally not capable of being adopted at present for those development assets which are relatively advanced in the development process. This current situation is likely to start to change as the property market matures and the availability and credibility of transactional evidence improves.

As a result of the above, we have not adopted this approach in arriving at our opinion of Market Value of the Properties, taking into account that the majority of development projects are reasonably advanced in terms of the overall development process which has to be undertaken by a developer. However, where we are aware of details of comparable transactions, we have had regard to them in arriving at our opinions and these are reflected within the Market Values adopted. However, given the relatively limited number of such transactions we have been required to adopt an alternative technique as the principal approach to valuation.

The second approach which can be adopted in valuing properties in the course of development is the residual approach to valuation. This approach has been applied by us using the Discounted Cash Flow ("DCF") methodology which involves the calculation of the present value of all future costs and income to be incurred and generated by the development of the property. This cash flow is discounted at an appropriate rate and this in turn generates a present value of the cash flow, which is the sum available for the purchase of the site at the date of valuation.

The DCF residual methods contain a variety of different variables, such as development costs, income, capitalisation rate/exit yield and a discount rate. Small changes in these variables can result in relatively significant changes in the Market Value obtained and, therefore, each of these variables should be thoroughly researched in order that the inputs adopted are fully supportable.

In terms of those properties which are income producing, we have adopted the income approach to valuation whereby we have capitalised the income received for the terms of the existing leases agreements. Those leases are assumed to be renewed at market rents which have then been capitalised into perpetuity.

Valuation Approach

In addition to the above general valuation methodology, we would point out the following specific assumptions and bases of valuation we have taken into account in arriving at our opinions of Market Value:

Pre Development

With the exception of a few projects, which have been recently purchased by the Company, we understand that the development concepts and development volumes within the projects under development have been approved by the City Authorities in the majority of development properties considered in this Valuation Certificate. As a result, we have assumed that the subject properties will be developed in accordance with the approved planning and project documentation. In terms of the projects at the early development stages, which have not obtained full permission from the city authorities, we have analyzed the data on the proposed development concepts provided to us by the Company and have formed our opinion on the possibility to adopt these concepts as the basis of the valuation taking into account the highest and best uses of the properties in question.

Development

Where we have considered it appropriate, we have assumed that the proposed projects will be developed in phases in order to bring a manageable amount of supply to the market in stages.

In terms of construction costs and outstanding construction costs, we have had regard to those budgeted costs provided to us by the Company and have taken these into account in considering our opinions of value. However, we have also had regard to current construction rates passing in the market which a prospective purchaser may deem appropriate to adopt in constructing each individual scheme. Although in some instances we have adopted the budgeted costs provided to us by the Company, in some cases we have opted to use our own opinions of costs. . In those instances where we adopted our own opinion of costs we would note that we are not professional cost consultants and these figures ought to be read in light of this. Our opinions as to costs have been arrived at on the basis of our experience of valuation of similar properties and on the basis of the cost information obtained from other developers, rather than from a qualified cost consultant.

Where there are outstanding payments to be made in respect of permitting, we have adopted those figures provided to us by the Company. In addition, with regard to outstanding costs for the provision of utilities together with the undertaking any road or infrastructure works, we have also adopted those figures provided to us by the Company. We have assumed that these costs are accurate.

With regard to Valued Added Tax (“VAT”), our valuations of the commercial elements of the property are effectively assumed to be tax transparent. However, in respect of those parts of the Properties which include residential accommodation, VAT (at the rate of 18%) is not recoverable on construction costs and, therefore our cost assumptions include this tax within our calculations.

Post Development

In terms of residential accommodation, the sales prices per m² reflect forecasted market conditions and represent those levels we consider to be achievable in future. We have assumed that there are no irrecoverable operating expenses and that all costs will be recovered from the occupiers/owners by way of a service charge.

In terms of commercial real estate properties, rental values have been assessed having regard to the existing and future occupational markets, taking into account the likely supply and demand dynamics.

We have assumed that upon expiry of the existing leases the properties will be let in line with market practices in terms of lease lengths, indexation of rents and recoverability of costs. The length of lease will vary depending upon the property type. We have assumed standard letting fees within our valuations where appropriate. All rents are exclusive of VAT.

In arriving at our opinion of net operating income (“NOI”), we have deducted, where appropriate, any anticipated non-recoverable expenses, which has then been capitalised into perpetuity.

The capitalisation rates adopted in arriving at our opinions of exit values reflect our opinions of the rates at which the properties could be sold as at the date of exit. The adopted capitalisation rates reflect our opinions of where we consider capitalization rates to be in future, although as a result of a lack of transparency in the market, and a relatively limited number of concluded transactions, this is a subjective exercise to a certain extent.

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