

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.

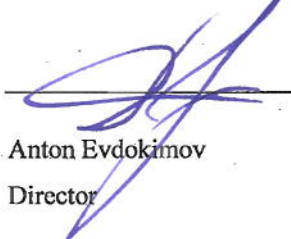
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for 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.

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

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.

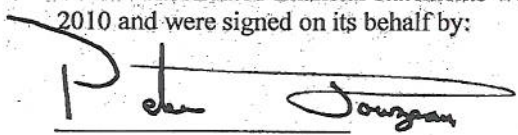
KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants
22 December 2010

Consolidated Statement of Comprehensive Income for the years ended 31 December 2009 and 2008

mln RUR	Note	2009	2008
Revenue	7	20 193	14 269
Cost of sales		(11 023)	(9 161)
Gross profit		9 170	5 108
General and administrative expenses	9	(1 440)	(1 541)
Selling expenses		(131)	(451)
Other expenses, net	10	(196)	(149)
Results from operating activities		7 403	2 967
Finance income	12	225	174
Finance costs	12	(1 049)	(1 257)
Net finance costs		(824)	(1 083)
Share of profit of equity accounted investees (net of income tax)		2	4
Profit before income tax		6 581	1 888
Income tax expense	13	(1 434)	(715)
Profit for the year		5 147	1 173
Total comprehensive income for the year		5 147	1 173
Profit attributable to:			
Owners of the Company		4 936	776
Non-controlling interest		211	397
Profit for the year		5 147	1 173
Total comprehensive income attributable to:			
Owners of the Company		4 936	776
Non-controlling interest		211	397
Total comprehensive income for the year		5 147	1 173
Earnings per share			
Basic and diluted earnings per share (thousand of RUR)	22	4,42	0,71

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 Bvdokimov
Director

Consolidated Statement of Financial Position as at 31 December 2009 and 2008

mln RUR		2009	2008	1 January 2008
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		3	34	109
Total non-current assets		3 620	3 016	2 611
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		24	7	13
Total current assets		34 061	34 984	18 907
Total assets		37 681	38 000	21 518
EQUITY AND LIABILITIES				
Equity				
Share capital	21	1	1	1
Share premium		1 951	1 951	-
Retained earnings		5 325	397	(416)
Total equity attributable to equity holders of the Company		7 277	2 349	(415)
Non-controlling interest		774	593	269
Total equity		8 051	2 942	(146)
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	840	280	101
Total non-current liabilities		3 877	2 276	4 915
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	1 923	1 509	315
Total current liabilities		25 753	32 782	16 749
Total equity and liabilities		37 681	38 000	21 518

mIn RUR	Attributable to equity holders of the Company				
	Share capital	Share premium	Retained earnings	Total	Non-controlling interest
Balance at 1 January 2008	1	-	(416)	(415)	269
Total comprehensive income for the year	-	-	776	776	397
Profit for the year	-	-	776	776	397
Other comprehensive income	-	-	-	-	-
Total other comprehensive income	-	-	776	776	397
Total comprehensive income for the year	-	-	776	776	397
Transactions with owners, recorded directly in equity	-	-	-	-	(27)
Dividends to equity holders	-	1 951	-	1 951	-
Shares issued	-	-	(14)	(14)	14
Restructuring, see note 21	-	1 951	(14)	1 937	(13)
Total contributions by and distributions to owners	-	1 951	(14)	1 937	(13)
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	51	51	(60)
Aquisition of non-controlling interest	-	1 951	37	1 988	(73)
Total transactions with owners	1	1 951	397	2 349	593
Balance at 31 December 2008	1	1 951	397	2 349	593
Total equity					(1 173)
					1 173

mIn 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	1	1 951	397	2 349	593	2 942
Total comprehensive income for the year	-	-	4 936	4 936	211	5 147
Profit for the year						
Other comprehensive income						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	4 936	4 936	211	5 147
Transactions with owners, recorded directly in equity						
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 subsidiary	-	-	(8)	(8)	8	-
Total transactions with owners	-	-	(8)	(8)	(30)	(38)
Balance at 31 December 2009	1	1 951	5 325	7 277	774	8 051

Consolidated Statement of Cash Flows for the years ended 31 December 2009 and 2008

mln RUR	Notes	2009	2008
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		1 434	715
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		(825)	(706)
Net cash provided by operating activities		2 180	659
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		17	-
Net cash used in investing activities		(155)	(378)
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		(32)	(21)
Net cash (used in)/from financing activities		(1 021)	1 143
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		34	35
Cash and cash equivalents at end of year	20	3 416	2 378

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.

(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.

(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 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.

(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.

(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.

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.

(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 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.

(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.

(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 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 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 2009 or 2008.

In the past, segment information was prepared and analyzed on an ad hoc basis and was not formalized. Currently, the new structure of segment reporting for the future periods has been developed. Segment information for the years ended 31 December 2009 and 2008 has been recalculated according to the new structure and is presented below:

(a) Information about reportable segments

mIn 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.

mIn 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
	<u>20 193</u>	<u>14 269</u>	<u>3 620</u>	<u>3 016</u>

Major customer

In 2009 and 2008 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

mIn RUR	2009	2008
Revenues		
Total revenue for reportable segments	24 088	25 505
Other revenue	705	652
Elimination of inter-segment revenue	(4 600)	(11 888)
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	44	1
Share of profit of equity accounted investees	2	4
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	46	71
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	79	105
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%.

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:

mIn RUR	Recognised fair values on acquisition
Non-current assets	587
Property, plant and equipment	567
Deferred tax assets	20
Current assets	89
Inventories	1
Trade and other receivables	71
Cash and cash equivalents	17
Non-current liabilities	(505)
Loans and borrowings	(209)
Trade and other payables	(296)
Deferred tax liabilities	-
Current liabilities	(171)
Loans and borrowings	(28)
Trade and other payables	(143)
Net identifiable assets, liabilities and contingent liabilities	-
Net identifiable assets, liabilities and contingent liabilities acquired	-
Carrying amount of existing 30% investment in the company	-
Consideration paid	-
Cash acquired	17
Net cash inflow	17

(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

mIn RUR	2009	2008
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	611	547
Total revenues	20 193	14 269

8 Construction contracts

mIn 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	
mIn 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

mIn 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	110	77
Total	<u>1 440</u>	<u>1 541</u>

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	(315)	(106)
	<u>(320)</u>	<u>(160)</u>
Other expenses, net	<u>(196)</u>	<u>(149)</u>

11 Personnel costs

mln RUR	<u>2009</u>	<u>2008</u>
Wages and salaries	1 723	2 125
Contributions to State pension fund	267	356
	<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	6	-
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	(59)	(34)
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	12	-
	<u>782</u>	<u>670</u>
Deferred tax expense		
Origination and reversal of temporary differences	652	45
Income tax expense	<u>1 434</u>	<u>715</u>

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	-	181
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.

mIn RUR	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
<i>Cost</i>							
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	40	1	-	2	-	(43)	-
Balance at 31 December 2008	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	12	-	-	-	-	(12)	-
Balance at 31 December 2009	548	1 493	61	85	45	64	2 296
<i>Depreciation and impairment losses</i>							
Balance at 1 January 2008	(106)	(168)	(21)	(46)	-	-	(341)
Depreciation for the year	(80)	(135)	(10)	(14)	-	-	(239)
Disposals	25	51	3	6	-	-	85
Balance at 31 December 2008	(161)	(252)	(28)	(54)	-	-	(495)
Depreciation for the year	(49)	(158)	(10)	(16)	-	-	(233)
Disposals	45	28	8	13	-	-	94
Balance at 31 December 2009	(165)	(382)	(30)	(57)	-	-	(634)
<i>Carrying amounts</i>							
At 1 January 2008	306	431	40	28	24	60	889
At 31 December 2008	354	604	44	38	45	38	1 123
At 31 December 2009	383	1 111	31	28	45	64	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.

mIn 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>672</u>	<u>760</u>	<u>225</u>	<u>(72)</u>

16 Other long-term investments

mIn RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
Loans, at amortised cost	23	58	50
Other	10	20	11
	<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	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
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	188	1	(13)	(16)	175	(15)
Tax assets/(liabilities)	2 917	2 573	(2 641)	(1 665)	276	908
Set off of tax	(1 801)	(1 385)	1 801	1 385	-	-
Net tax assets/(liabilities)	1 116	1 188	(840)	(280)	276	908

(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.

(c) Movement in temporary differences during the year

mln RUR	1 January 2009	Recognised in income	Acquired/ disposed of	31 December 2009
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	3	14	57	74
	908	(652)	20	276

mIn 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	3	-	-	3
	<u>953</u>	<u>(45)</u>	<u>-</u>	<u>908</u>

18 Inventories

mIn 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	46	71	74
	<u>27 547</u>	<u>30 033</u>	<u>15 981</u>
Less: Allowance for obsolete inventory	(829)	(764)	(346)
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.

The following is movement in the allowance for obsolete inventory:

mIn RUR	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	764	346
Change in allowance for obsolete inventory	65	418
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	10	4	22
	<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	531	281	222
	<u>4 095</u>	<u>3 457</u>	<u>2 447</u>
Less: Allowance for doubtful accounts receivable	(219)	(160)	(126)
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>

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

mIn RUR	2009	2008	1 January 2008
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)	2 882	2 023	556
Cash and cash equivalents in the statement of financial position	3 416	2 378	919
Cash and cash equivalents in the statement of cash flows	3 416	2 378	919

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.

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2009	2008
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	-	117 647
On issue at end of year, fully paid	1 117 647	1 117 647

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).

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.

<i>Number of shares unless otherwise stated</i>	<u>2009</u>	<u>2008</u>
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	<u>1 117 647</u>	<u>1 094 118</u>

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.

mIn RUR	<u>2009</u>	<u>2008</u>	<u>1 January 2008</u>
<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
	<u>2 572</u>	<u>1 867</u>	<u>4 678</u>
<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
	<u>3 272</u>	<u>4 869</u>	<u>1 866</u>

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

mIn 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%	2010	610	610	610	610	1 512	1 512
Unsecured bonds	RUR	11,75%	2010	5 888	5 844	6 757	6 736	6 565	6 544

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	Provision for		Total
	Warranties	deferred works	
Balance at 1 January 2008	72	315	387
Provisions made during the year	26	2 309	2 335
Provisions used during the year	(21)	(1 115)	(1 136)
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	(12)	(1 730)	(1 742)
Balance at 31 December 2009	<u>83</u>	<u>1 923</u>	<u>2 006</u>
Non-current	83	-	83
Current	-	1 923	1 923
	<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.

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	5	4	11
	<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	660	367	276
	<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:

	2009			2008			2007		
	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	-	-	-	-	-	-	-	-	-
	555	70	485	6	1	5	8	2	6

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

Currency	Nominal interest rate	Year of maturity	2009		2008		1 January 2008	
			Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
EUR	8,67 - 12,59 %	2012 - 2013	432	432	-	-	-	-
USD	24,76%	2012	50	50	-	-	-	-
RUR	16,04 - 24,47 %	2010 - 2012	3	3	5	5	6	6
			485	485	5	5	6	6

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	3 416	2 378	919
	<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.

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	Impairment	Gross	Impairment	Gross	Impairment
	2009	2009	2008	2008	1 January 2008	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
	<u>1 570</u>	<u>42</u>	<u>980</u>	<u>27</u>	<u>522</u>	<u>13</u>

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

mln RUR	2009	2008
Balance at beginning of the year	27	13
Increase during the year	38	16
Write-offs	(7)	(1)
Decrease due to reversal	(16)	(1)
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	2009	2008
Balance at beginning of the year	133	113
Increase during the year	112	50
Write-off	(8)	(2)
Decrease due to reversal	(60)	(28)
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:

mIn RUR

	2009	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities	Carrying amount								
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)	19 973	19 973	19 889	48	36	-	-	-	-
	26 302	27 583	22 222	1 696	1 857	1 255	302	251	-
2008	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	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	-	-	-	-
	32 986	33 544	29 031	2 476	1 815	222	-	-	-
1 January 2008	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	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	-	-	-	-
	21 029	21 913	16 215	580	3 235	1 868	15	-	-

(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-	Euro-	USD-	Euro-
	denominated	denominated	denominated	denominated
	2009	2009	2008	2008
Cash and cash equivalents	106	590	103	548
Loans and borrowings	(3 652)	-	(5 958)	-
Finance lease liabilities	(50)	(432)	-	-
Gross exposure	(3 596)	158	(5 855)	548

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.

mIn RUR		<u>Equity</u>	<u>Profit or loss</u>
	2009		
USD (10% strengthening)		(360)	(360)
EUR (10% strengthening)		16	16
		<u>(344)</u>	<u>(344)</u>
	2008		
USD (10% strengthening)		(586)	(586)
EUR (10% strengthening)		55	55
		<u>(531)</u>	<u>(531)</u>

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:

mIn RUR	<u>Carrying amount</u>	
	<u>2009</u>	<u>2008</u>
Fixed rate instruments		
Financial assets	4 030	2 403
Financial liabilities	(6 329)	(6 741)
	<u>(2 299)</u>	<u>(4 338)</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.

(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:

mIn RUR	Note	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
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	3 416	3 416	2 378	2 378
		<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	20 458	20 458	26 250	26 250
		<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:

mIn RUR	2009	2008
Total borrowings	5 844	6 736
Less: cash and cash equivalents	(3 416)	(2 378)
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.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mIn RUR	2009	2008
Less than one year	134	128
Between one and five years	87	165
More than five years	16	17
	237	310

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.

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	2009	2008
Salaries and bonuses	109	127
Benefits in kind	2	-
	111	127

(ii) Other transactions

Sales to key management personnel are disclosed below:

mln RUR	Transaction value		Outstanding balance		
	2009	2008	2009	2008	1 January 2008
Sale of apartments and premises	60	17	-	-	-
	60	17	-	-	-

(c) Transactions with other related parties

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

(i) Revenue

mln RUR	Transaction value		Outstanding balance		
	2009	2008	2009	2008	1 January 2008
Other related parties	79	71	149	67	99
Equity accounted investees	3	3	2	3	5
	82	74	151	70	104

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

(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.

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 Otyabrskaya 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.