Reaching even higher

Etalon Group Limited
Annual Report and Financial Accounts 2011

Etalon Group is one of Russia's largest and most established residential real estate developers. Our strong portfolio is focused on large-scale residential complexes, targeting the comfort class segment.

Growing

Rapidly expanding projects portfolio

- Projects portfolio focused on cash-flow generation
- Sufficient land bank to support future recurring income

Stable

Strong delivery track record

- 3 mln sqm delivered since inception in 1987
- 25 years of construction & development experience recurring income

500 ths sqm

Increase in land bank

27%

Increase in new contract sales

Strategic

True vertical integration
- All stages of development cycle
- Large-scale multi-phase projects
- Country-wide sales network

Agile

Presence in rapidly growing markets
- Dominant player in "comfort class"
- Leader in St. Petersburg[1] real estate market with ca. 11% market share [2]
- Strong presence in Moscow[1] real estate market

392 ths sqm

Representing pre-sales launched for 9 new buildings

57%

Increase in deliveries

(1) St. Petersburg metropolitan area and Moscow metropolitan area, respectively
(2) Average annual market share of total residential completions in the private sector (excluding individual construction) between 2000 and 2011 in St. Petersburg

Etalon Group at a Glance

Etalon Group is one of Russia's largest and oldest residential real estate developers, with a market-leading position in St. Petersburg and a growing presence in the Moscow Metropolitan Area.

Residential high-rise development is our core business activity
We are a residential developer in Russia's "golden triangle" of St. Petersburg, Moscow and the greater Moscow area, with a dominant position in the comfort class segment.

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

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

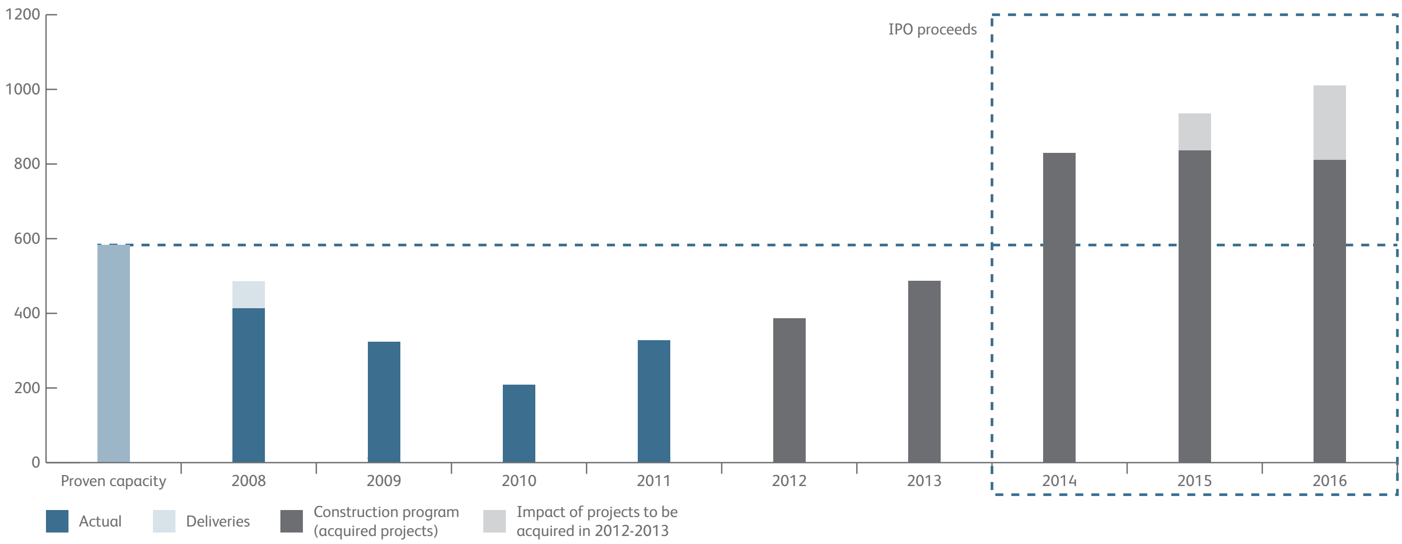
One of the oldest companies in the sector, with a 25-year track record
Etalon Group was founded by Viacheslav Zarenkov, who is today the company's President and majority shareholder. We have one of the longest and most successful track records in the Russian real estate industry, which has enabled us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

We are fully landbank sufficient until 2017
We acquire land with a view to starting construction within 18 months. This means we do not try to speculate with our land, we do not acquire agricultural land or land that has infrastructure problems, we never take zoning risks and always maintain a "live" landbank.

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

Our ambitious construction programme is based entirely on projects where we already own land rights. By 2014 we plan to deliver over 800 thousand sqm, which is almost double pre-crisis levels and four times higher than our deliveries in 2010.

Sufficient land bank to increase deliveries 2x by 2012 and 4x by 2014



3.1mln sqm

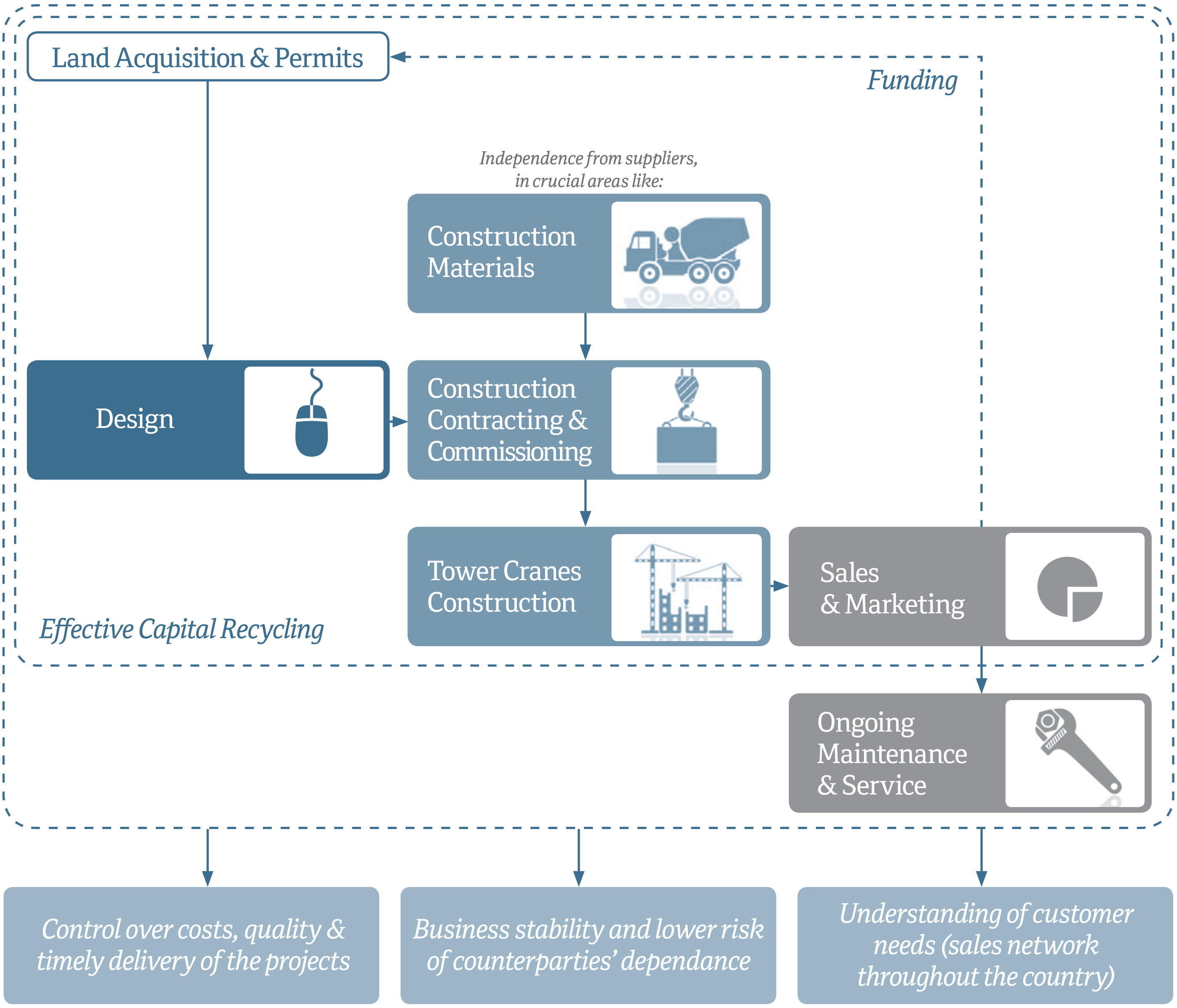
commissioned since inception in 1987

Truly vertically integrated business model
Etalon Group consists of over 80 business units that employ over 4,000 people. We are the only company in the sector that can boast true vertical integration, with two strong management companies, five general contractors, 16 subcontractors, a crane company, a brick factory and a nationwide sales network. In addition to homebuilding, the superior quality of our offering means that we are a trusted industrial construction partner for clients like General Motors, Toyota, Ford Motors, Bosch, Siemens, Nissan, Suzuki and Gazprom.

Vertical integration means that we do everything from acquiring land to sales and cash collections from our customers. This enables us to maximise the margins we receive throughout the value chain, and it reduces our exposure to cost inflation from external service providers.

We operate a unique nationwide sales network, which covers 9 of the 10 wealthiest regions of Russia, and spans 30 cities in total. We build homes in the “Golden Triangle”, which is where people throughout Russia aspire eventually to live. Twelve years ago we saw the opportunity in Russia’s top metals & mining and oil & gas regions, where people with high disposable incomes would seek to relocate to St. Petersburg or Moscow after 5-10 years. Today this nationwide sales network generates up to 30% of our revenue, and has been an important source of stable demand even through the crisis.

Vertically Integrated Business Model



Etalon Group at a glance

Continued

Etalon Group is a vertically integrated homebuilder focused on "comfort class" residential high-rise developments in the St. Petersburg and Moscow Metropolitan Areas. Our strong financial position and project pipeline are supported by a successful pre-sales business model and a nationwide sales network.

Leading the comfort class with best-in-class product

We are very proud of our product, which we believe offers our customers the best value for their money. We operate in the comfort class, which is in the sweet spot between economy and business classes. This is the "sweet spot" because we sell at prices that are accessible to a much broader customer base than business class, while our customers are in a more secure financial position than those who buy economy class apartments, as we saw during the crisis. We effectively offer our customers business class quality at affordable prices. One of the keys to success in our segment is the instalment plan payment scheme that we offer. Etalon Group's tailored instalment plans make it possible for families with some savings and sufficient disposable income to purchase an apartment with balanced payments that fit within the family's budget and secure stable cash collections for Etalon. We offer our customers unique instalment plans, with downpayments ranging from 10-90% and payment periods of up to 40 months or more. This allows us to tailor payment schedules to fit the disposable incomes of our customers.

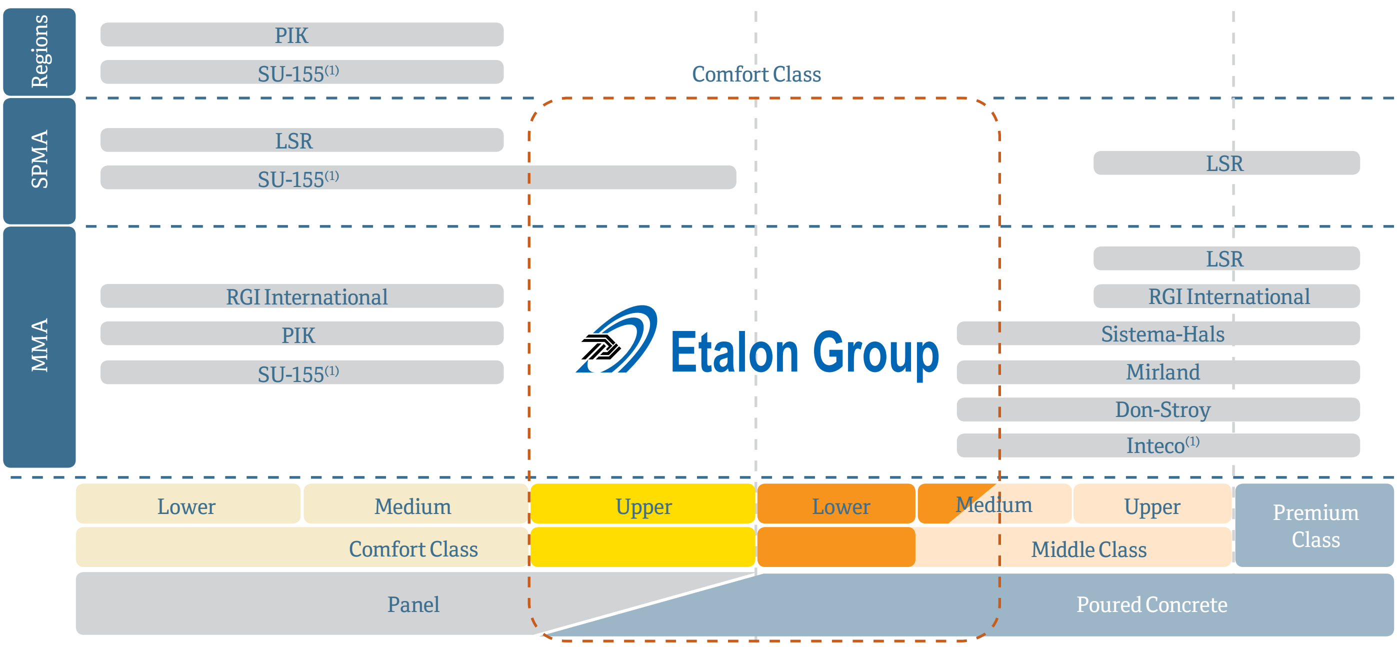
A position of financial strength

We had a net cash position of USD167 million at the end of 2011, and our net debt/ EBITDA ratio has historically been very low. This is primarily driven by our pre-sales business model. We aim to pre-sell 70-90% of all residential space before a building is delivered. We also target an average down payment of 50%. This allows us to finance the construction process using money from our customers, as opposed to using the loans or funding from shareholders.

Robust corporate governance

We have a system of corporate governance in place that ensures shareholders' interests are well represented. Baring Vostok has been a financial partner and shareholder since 2008, and we have an outstanding Board made up of 10 Directors, five of whom are non-executives. Our Board is highly dedicated to supporting Etalon Group's success, and we are pleased that our Directors include prominent individuals from the international financial and construction industries.

Real estate segment presence vs. peers



(1) Non-public peers

Etalon Group is focused on the St. Petersburg and the Moscow Areas, the two markets at the forefront of Russia's economic development.

St. Petersburg Metropolitan Area

Over the past ten years, Etalon Group has successfully established itself as a leading property developer in the St. Petersburg Metropolitan Area. We averaged an 11% annual market share of total residential completions in the private sector (excluding individual construction) in the region between 2000 and 2010.

As of December 31, 2011, our projects in the St. Petersburg Metropolitan Area comprised approximately 55% of our total unsold net sellable area.

Moscow Metropolitan Area

Etalon Group has established a solid foothold in the Moscow Metropolitan Area since 2008, which it will continue to expand.

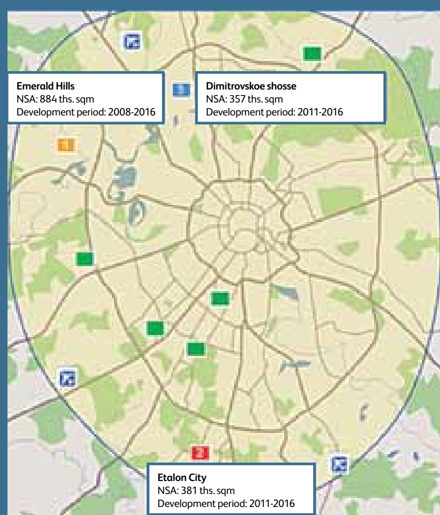
As of December 31, 2011, our deliveries in the Moscow Metropolitan Area accounted for 30% of total deliveries (98 ths sqm). As of the end of 2011, our share of the total MMA landbank increased by 10% from 34% to 45%.

800 ths sqm

Planned level of deliveries by 2014

Projects in St. Petersburg Metropolitan Area

Projects in Moscow Metropolitan Area



Leaders in SPMA residential real estate

Sea Facade St. Petersburg

Sea Facade is an upper comfort class residential complex, located in the historic Vasileostrovsky district of St. Petersburg. The project consists of six 7-26 storey residential buildings with built-in commercial premises and an underground parking, constructed using poured concrete technology with brick elements and ventilated facades.

A conversation with Viacheslav Zarenkov

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

Q1
Do you think that the Russian real estate sector can finally say that "the crisis is over"?

I don't think it would be wise in any sector to say that the crisis is over and will never come back. In fact one of the takeaways from the last crisis was that not everything can be predicted. So we have taken measures to strengthen our business and to become more resilient to market volatility.

However, looking at our exceptional results for 2011, which was the third consecutive year of recovery and growth in the Russian real estate market, the signs are encouraging. Growth continues to be underpinned by two key factors – steadily rising consumer confidence, combined with a continued shortage in supply, particularly in the comfort class segment in which we operate. And despite our rapid year-on-year growth, the good news is that we still haven't even reached pre-crisis highs. So we see substantial room for further growth both over the short and long-term, and we are well placed to capture that growth. One result of the crisis was that consumers have shifted considerably towards low-risk, financially strong companies with a long history and track record. This plays to our strengths.

Q2
You announced a share buyback programme in 2011 that you suspended in early 2012 – why did you suspend the programme early?

We announced the buyback at the time because we were in a strong position and we believed that our shares were trading well below their fair value. So we viewed the buyback as a healthy alternative to holding our cash in deposits, and as we said at the time we would sell shares back when markets started to behave more rationally. In March 2012, we suspended the buyback after seeing a significant recovery in the share price, and while we believe there is still considerable headroom for it to increase further, we felt that we could derive even greater value from investing the money in our core business – to acquire and develop high-quality real estate projects in and around St. Petersburg and Moscow.

Q3
You call yourselves a residential real estate company but you also participate in high-profile industrial as well as commercial projects like the St. Petersburg ExpoCentre. What place do these projects have in your business model?

Our roots are in the residential segment, where we have focused on building large-scale projects in the comfort class segment. But in our more than 20 years of doing business, we have developed expertise and a strong reputation in other segments. For example we are a trusted partner in industrial construction in the northwest region, with a superb, long-standing track record. We have also realised tangible benefits from diversifying our business. Our expertise and ability to provide quality construction services to well-known international and local companies has the added value of supporting our Group's brand development. It also allows us to maintain our highly skilled workforce even during times of market downturn. Ultimately, if we believe we can do a project to a high standard, profitably, and if it's in our core geography, we will certainly consider it.

Q4
How are you going to deal with the residential real estate market's high sensitivity to economic uncertainty as we go into 2012?

To a certain degree our business has a natural hedge against economic uncertainty. As nervousness in the market increases, consumers become more likely to go to companies with history, pedigree and financial strength like Etalon. In addition, our customers tend to be in relatively secure financial positions themselves, with higher than average resilience to fluctuations in the economy. Moreover, the undersupply in the market is not likely to be filled in the immediate future, which will continue to drive demand, and undersupply is particularly acute in the segment in which we are focused on.

Coming into 2012, we are not seeing signs – or at least we are not seeing results – of economic uncertainty. Russian consumer confidence continues to grow. For example, in the first quarter of 2012, the average down payment hit a phenomenal 72%, significantly above our target of 50%. And we have continued to see year-on-year growth across almost all key performance indicators, even though we were coming off a high base in the first quarter of 2011.

So while we always try to be cautious in our forecasting, the dynamic appears to be very positive, and we don't see any reason for that to change.

Q5
What are your priorities for 2012, and how will you ensure that you maintain current growth levels?

What is so exciting about the Russian market is that we can see continued growth opportunities spanning several generations. Going forward, we will adhere to our clear and focused business model. This entails focusing on our core geographies in and around Moscow and St. Petersburg, with particular room to grow in and around Moscow. We are pleased to be fully land bank sufficient already until the end of 2017, and we are currently in the process of acquiring a number of new projects both in MMA and SPMA that will further secure our expansion capability for the period 2015-2019. We anticipate solid growth in new contract sales in 2012, and are expecting them to increase by 25% up to 337 thousand sqm. And you will see on the pages 16 to 19 updates on specific projects and how we intend to progress with them over the course of the year.

2011 was an excellent year all around and we have entered 2012 with strong momentum, well placed to continue growing profitably for the benefit of our shareholders.

Deliveries

+57%

Year on year to 328 ths sqm

New contract sales

+27%

Year on year to 270 ths sqm

Our Strategy

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

Our strategy comprises five principal strands:

Focus on our core strength – home building

- We concentrate on developing large-scale residential complexes in the affordable "comfort class" price segment
- We adapt to changes in market demand by responding to feedback from our extensive sales network and tailoring future projects to match
- We maintain a vertically integrated business model so that we can meet expected growth in our target market segments

Target our key markets – the "golden triangle"

- We intend to remain the leading property developer in the St. Petersburg Metropolitan Area (SPMA)
- We have firmly established our presence in the Moscow Metropolitan Area (MMA), where we continue to increase our market share (target 50/50 split between MMA and SPMA)
- We continue to grow our national sales network to expand our customer base across Russia and fuel sustainable growth

Disciplined management of our land bank

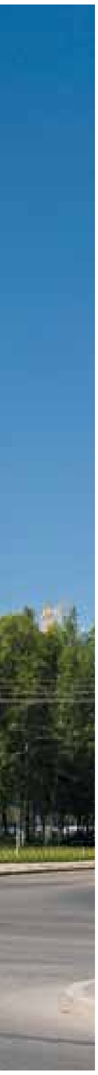
- We plan to maintain enough land reserves to fulfil our needs over the medium term
- We are currently land bank sufficient until the end of 2017, and are acquiring projects to ensure expansion capacity from 2015 to 2019
- We do not hold on to projects for future development, but look to minimise the time between acquisition and development
- We seek to enhance returns by reinvesting capital efficiently

Prudent attitude to financing

- We focus on pre-sales as a key source of funding for the construction process
- We have a conservative strategy built on improving our borrowing structure
- We are lengthening the overall maturity profile of our debt, reducing borrowing costs and diversifying our sources of financing
- We aim to maintain a low level of leverage, measured by our debt-to-EBITDA ratio

Build on our market reputation for high levels of quality

- We continue to expand our brand recognition by investing in our sales and marketing operations as well as construction
- We emphasise customer service to create positive perceptions and enhance our reputation – a virtuous circle
- We generate sales from our reputation for consistently providing products of the highest quality



Market Overview

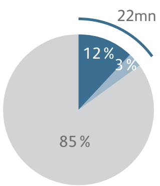
"We believe Russia stands out from other residential markets around the world in that it continues to grow at a fast pace, and given the chronic undersupply in the market, this growth is likely to continue for multiple generations to come."

Viacheslav Zarenkov,
Etalon Group President

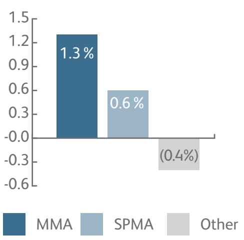
The fundamentals of the homebuilding market in Russia remain highly attractive.

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

MMA & SPMA – most populated Russian regions… Total: 142mn[3]

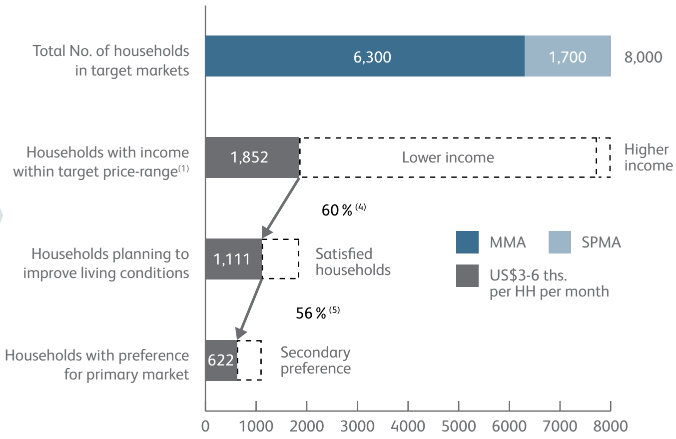


…with growing demand for residential real estate Population growth/ (decline) in 2007-2010[3]

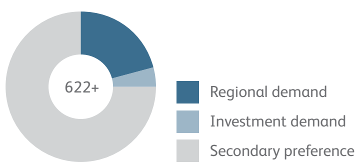


Source: Rosstat

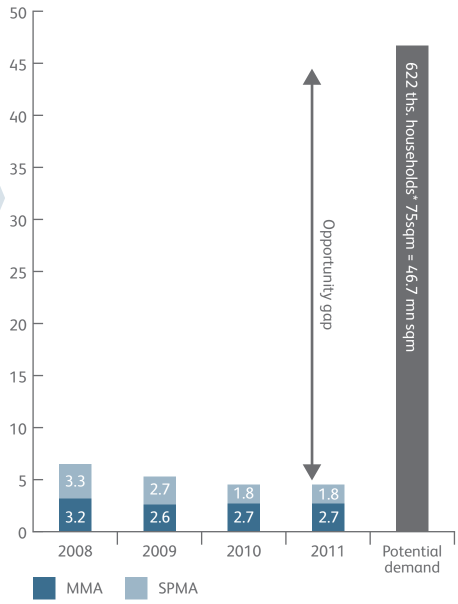
Potential demand estimation (ths. households)



Indicative potential market[2]



Potential demand estimation (mln sqm) Deliveries



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

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

Generations of demand

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

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

To put 47 million sqm into context, last year Moscow accepted 1.8 million and St. Petersburg accepted 2.7 million sqm of newly-constructed real estate, including social housing, commercial, administrative and industrial premises.

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

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

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

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

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

Etalon in context

The first stage of our Emerald Hills project consists of 98 thousand sqm of NSA. The total volume of real estate NSA accepted by Moscow in 2011 was the equivalent of c.18 buildings of the size of the first stage of Emerald Hills. This shows how the scope and need for further development in Moscow remains vast.

The petro-dollars go to the "golden triangle"

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

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

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

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

Mortgage lending on the rise

While we differentiate ourselves by offering tailored instalment plans that are often preferable to other forms of financing, mortgages nevertheless represent around 10% of our sales, and we expect this number to rise as mortgage lending continues to grow.

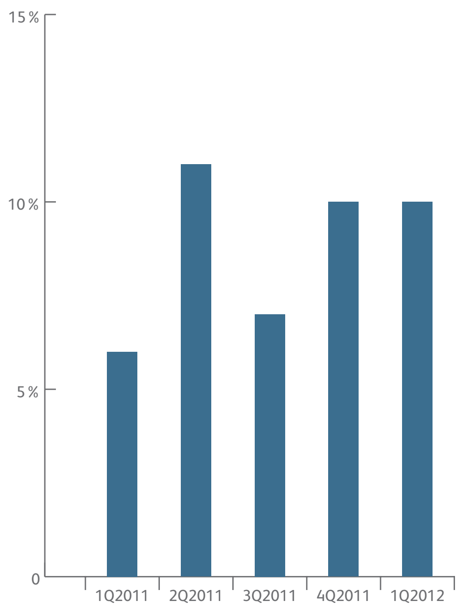
Compared with other developing nations, and despite rapid growth in the mid-2000s, mortgage lending remains underdeveloped in Russia. As the economy continues to recover, and as living standards and levels of disposable income increase further, mortgage lending will become an increasingly important factor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

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

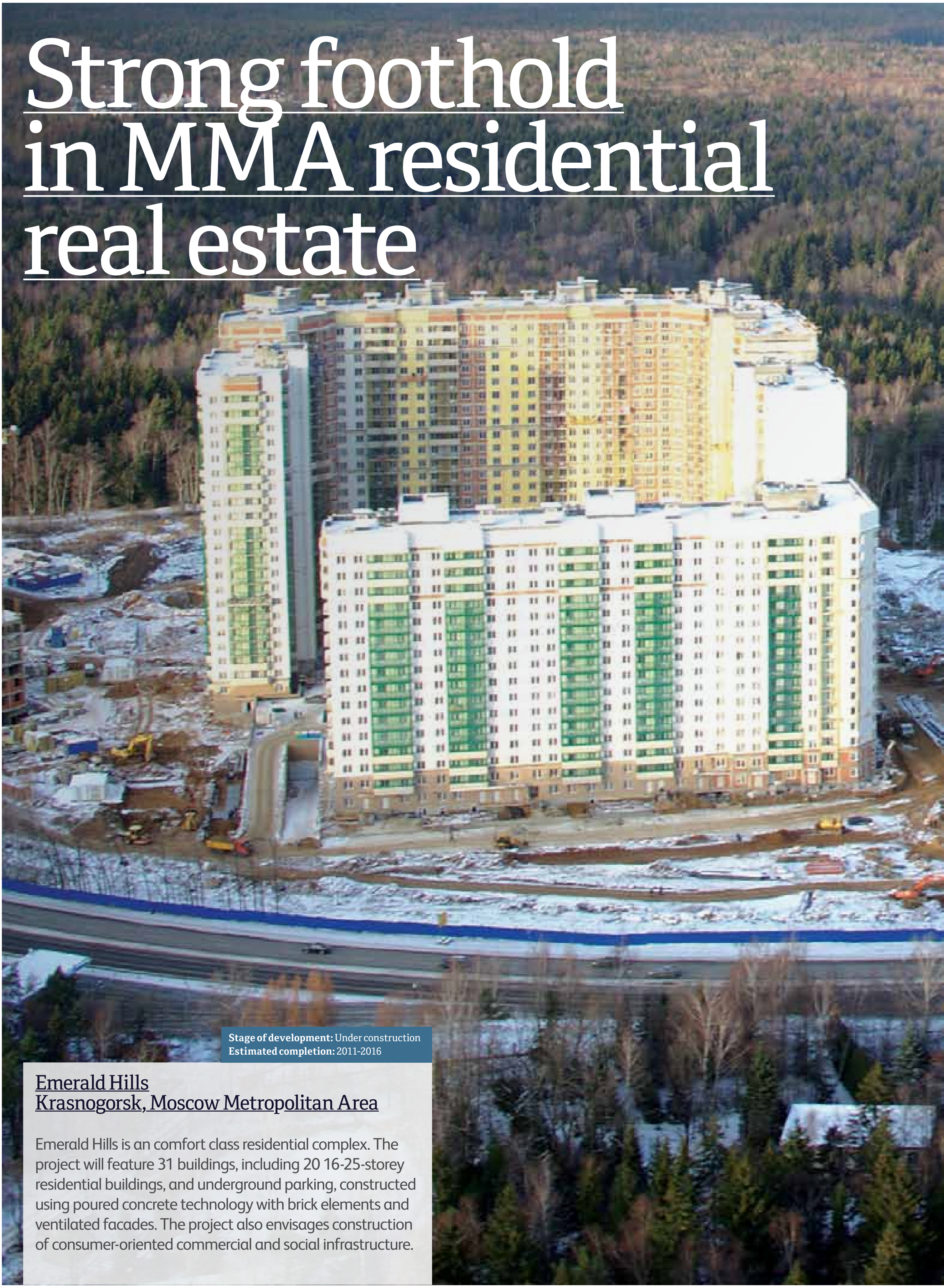
Sberbank and VTB, both of them state-controlled, dominate the mortgage lending market. Banks have adopted tougher criteria to identify good quality borrowers since the economic downturn, but have also demonstrated their intentions to make mortgages more affordable to a broader section of the population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

> "1.8 mln sqm was delivered in Moscow last year. If you consider the average apartment size of 75 sqm, this represents 24,000 new housing units for the year. Taking into account the average family size is 2.7 people, these figures show that homes were delivered for approximately 65 thousand people in 2011."

Etalon Group's Share of Mortgage Sales



Strong foothold in MMA residential real estate



Stage of development: Under construction
Estimated completion: 2011-2016

Emerald Hills
Krasnogorsk, Moscow Metropolitan Area

Emerald Hills is an comfort class residential complex. The project will feature 31 buildings, including 20 16-25-storey residential buildings, and underground parking, constructed using poured concrete technology with brick elements and ventilated facades. The project also envisages construction of consumer-oriented commercial and social infrastructure.

Portfolio Highlights

All stages of development cycle.

Large-scale multi-phase projects.

Projects portfolio **focused on cashflow generation.**

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

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

Strong foothold in Moscow Metropolitan Area residential real estate market.

Sufficient land bank to support future recurring income.
Land bank secured to double delivery volume by 2012 and increase four-fold by 2014.

Our Portfolio

Overview

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

An unrivalled history and track record...
Our 25 year history and track record of delivery instils trust in our customers, trust which only grew in recent times of market uncertainty. Since we were founded, we have successfully launched 130 buildings with a total NSA of more than 3 million sqm.

...and a strong platform for future growth...
We have six projects currently under construction representing a total NSA of more than 2 million sqm (the equivalent of eight Empire State Buildings), including the largest and the most ambitious Emerald Hills project in the Moscow Metropolitan Area (884 ths sqm).

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

Our pipeline is strong...
On the following pages is an overview of our current projects underway in both St. Petersburg and Moscow. A selection of some of our new flagship projects are featured in more detail on pages 18 to 19.

Projects delivered in 2011

Project	NSA, Sqm
1 Talisman	14,867
2 Jubilee Estate 78A building 6	69,866
3 Jubilee Estate 78A building 7	34,165
4 Jubilee Estate 78A building 4	32,737
5 Orbit building 1	71,671
6 Emerald Hills stage 1	97,594
Other	7,535
Total	**328, 435**

Selected projects completed & underway

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

Golden Bay (SPMA)

A comfort class residential complex located in the Primorsky district of St. Petersburg. The complex consists of seven residential towers with up to 25 floors constructed from brick and poured concrete with ventilated facades. The ground floors are occupied by consumer-oriented commercial premises. The complex also features a fitness centre, children playgrounds as well as recreational and "green" areas.

NSA: 215,900 sqm
Construction period: 2003 – 2008
Status: Construction completed.

Jubilee Estate (SPMA)

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

NSA: 601,758 sqm
Construction period: 2007 – 2012
Status: 11 of 13 buildings delivered by the end of 2011, project on track for completion in 2012 with total NSA of 602 thousand sqm; new roads approved in 2012 will improve access to the development.

Orbit (SPMA)

Residential complex located in the Kalininsky district is part of the larger Grazhdanka City-3 development, encompassing four additional residential complexes previously developed by Etalon Group. The complex will comprise four 17-24-storey residential buildings. Built using poured concrete technology with brick elements and ventilated facades, including underground parking and two kindergartens. The complex is located in an attractive area next to Benoit Garden, Piskarevsky and Murinsky parks, and St. Petersburg's largest park, Sosnovka.

NSA: 207,405 sqm
Construction period: 2008 – 2012
Status: One of four buildings delivered (completed NSA: 72 thousand sqm), project on track for completion in 2012.

Emerald Hills (MMA)

Residential complex that will feature 31 buildings, including 20 16-25-storey residential buildings and underground parking. Built using poured concrete technology with brick elements and ventilated facades. The development is within 23 kilometres of the centre of Moscow and 20 minutes by public transportation from Tushinskaya metro station.

NSA: 884 ths sqm
Construction period: 2008 – 2016
Status: Phase I (98 thousand sqm of NSA) delivered in December 2011, Phase II (108 thousand sqm of NSA at 13 floor) with a total NSA of 884 thousand sqm.

Portfolio Highlights

Selected new projects

MMA deliveries: accounted for 30% of total deliveries (98 ths sqm).

MMA land bank: share of total land bank up to 45% from 35%.

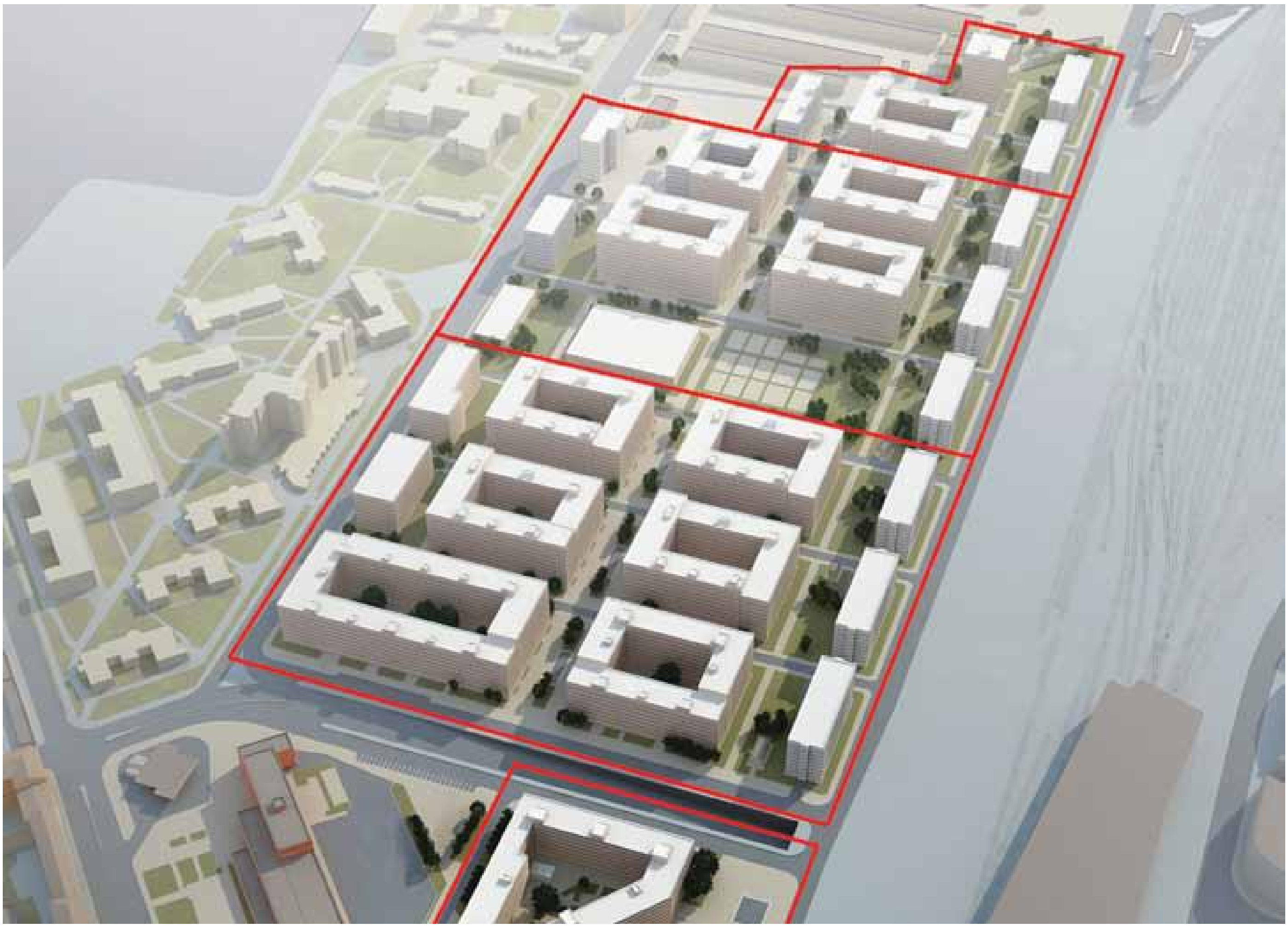
Dmitrovskoe shosse: expanded flagship project from 220 ths to 350 ths sqm.

Established **full-scale general contractor** in MMA.

Tsarskaya stolitsa, (SPMA)

The development envisages a total site area of 20.8 hectares with a total net sellable area of 459,114 sqm. The site is located in the geographical centre of St. Petersburg and has good transport accessibility, being 1 km from the Moskovskiy railway station (Moscow direction), close to Nevsky Prospect, within walking distance from numerous shopping and entertainment centres.

NSA: 459,114 sqm
Construction period: 2012 – 2016
Status: Design stage



New projects in the pipeline

With the help of new projects in our portfolio pipeline, including the select samples on these pages, we are well on our way to doubling deliveries by 2014 to over 800 ths sqm.

Lastochkino Gnezdo (SPMA)

This project is one of the jewels in our crown. The second largest project in all of St. Petersburg, the development occupies a total site area of 13 hectares. It is located in the Nevsky District of St. Petersburg, and has excellent transport links, being just 500 m from Oktyabrskaya embankment and approximately 20 minutes by car to the centre of town. The nearest metro is Proletarskaya. The development benefits from a good view of the Neva River.

NSA: 318,996 sqm
Construction period: 2011 – 2016
Status: Construction permit obtained in April 2012

Etalon City (MMA)

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

NSA: 381,316 sqm
Construction period: 2011 – 2016
Status: Obtaining planning permit

Moskovskiy (SPMA)

The development occupies a total site area of 12 hectares, with a total net sellable area of 252,580 sqm. The centre of St. Petersburg can be reached in approximately 10 minutes in non-peak hours, and Pulkovo Airport is just 20 minutes away by car. There are also a number of bus stops situated within walking distance as well as metro station.

NSA: 252,580 sqm
Construction period: 2013 – 2016
Status: Design stage

Samotsvety (SPMA)

The development envisages a total site area of 6.5 hectares with a total net sellable area of 187,458 sqm. It is located in the Vasileostrovsky District of St. Petersburg, and its proximity to the centre of the city makes this a prestigious location for both for living and business.

NSA: 187,458 sqm
Construction period: 2013 – 2015
Status: Design stage

Industrial real estate

Nissan Plant St. Petersburg

This project involved construction of the 32 ths sqm vehicle test track and the 60 ths sqm car storage area, which included design and construction of storm water drainage, drainage system and pipe barrels, treatment facilities, exterior lighting system and lighting poles, asphalt work, landscaping and roads.

Etalon Group is a trusted partner for industrial construction in the northwest region of Russia based on our extensive experience and a strong track record of successfully executing large and complex industrial projects for both domestic and international clients.

Operational Review

"In 2011 we delivered more than 328 ths sqm of NSA and we executed fully on the ambitious construction programme that was approved after our successful IPO in April 2011. We are particularly proud that we started our first and significant deliveries in the Moscow Metropolitan Area, which serves as continued proof of the sustainability of our unique vertically integrated business model."

Vyacheslav Zarenkov,
Etalon Group President

Operations review
In 2011, new contract sales increased 27% year-on-year (y-o-y) to 270,012 sqm and 30% y-o-y to RUR 18,306 mln on the back of a continued recovery in consumer activity. While these results represent strong y-o-y growth, Etalon remains well below pre-crisis levels, and we believe there is substantial headroom for further recovery and growth. Before the crisis in 1H 2008, for example, we contracted 218 thousand sqm in St. Petersburg alone (c. 440 thousand sqm on an annualized basis).

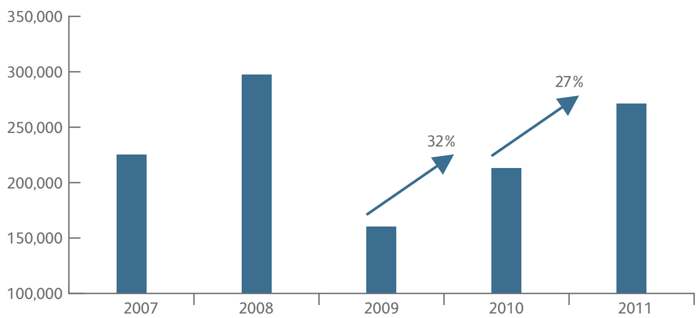
We also see significant growth potential in expansion into the Moscow market. Two key strategic milestones for 2011 were the delivery of our first 98 thousand sqm in the MMA, and the increased share of MMA projects in our total portfolio to 45%. We aim to replicate our successful model targeting the 6th-7th-and 8th rings around city centres, where land remains a commodity and Etalon's unique offering will attract buyers looking for high quality comfort class apartments.

As the market recovered, selling prices for apartments also grew, especially in the second half of 2011. The average price for new contract sales in 4Q 2011 increased to RUR 71,718, up 9% compared to RUR 65,994 in 4Q 2010, and up 5% from RUR 68,030 in 3Q 2011.

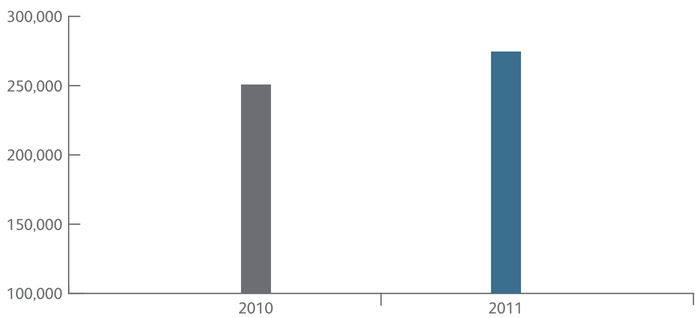
Deliveries outpace approved construction programme
Deliveries increased by 57% y-o-y, including successful expansion into Moscow with the milestone first stage of Emerald Hills delivered on schedule, which contributed to total deliveries for the year ended 31 December 2011 of 328 thousand sqm. This was well above the planned deliveries of 319 thousand sqm for 2011 approved after the IPO as part of Etalon's construction programme.

Launch of sales on new projects in Q4 2011
In 4Q 2011 we launched sales of five new buildings with a total NSA of 251 thousand square meters: two in Jubilee Estate and three in Emerald Hills. With average prices in the range of USD2.0-2.5 thousand per sqm, these projects have the potential to generate up to USD566 mln of cash collections during the next 3-5 years.

New sales contracts (sqm)



Transfers to customers (sqm)



Launch of sales on new projects in 4Q 2011

Project	NSA*, sqm	Delivery	Expected cash collections, USD mln
Orbit building 2	49,477	2012	104.3
Orbit building 3	42,320	2012	97.1
Jubilee Estate 78A, building 2	64,126	2012	120.1
Jubilee Estate 78A, building 5	32,109	2012	60.3
Emerald Hills, building 7	17,216	2012	44.7
Emerald Hills, building 10	52,903	2012	129.1
Emerald Hills, building 11	69,583	2012	181.4
Emerald Hills, building 12	31,838	2012	79.7
Emerald Hills, building 13	32,511	2012	75.5
Total	**392,083**		**892.2**

2011 Operational results overview

New Sales	2011	2010	Change %
New Sales, sqm	**270,012**	212,277	27 %
New sales, mln RUR	**18,306**	14,106	30 %

Deliveries	2011	2010	Change %
NSA Delivered, sqm	**328,435**	208,998	57 %
Transferred to customers, sqm	**274,558**	250,711	10 %

Quarterly summary	1Q 2011	2Q 2011	3Q 2011	4Q 2011
New sales, sqm	**59,638**	**62,544**	**63,737**	**84,093**
New sales, mln RUR	**4,158**	**3,781**	**4,336**	**6,031**
Average price, RUR/sqm	**69,721**	**60,453**	**68,030**	**71,718**

* including parking lots

Financial Review

"With an EBITDA margin of 36% in 2011 we have achieved some of the best margins in the sector. With USD490 mln in cash and cash equivalents and USD323 mln of mid to long-term debt, we believe Etalon is well positioned to acquire where high-quality projects in order to create additional value for shareholders."

Anton Evdokimov,
Etalon Group CFO

Revenue: +16% y-o-y to USD774 mln from USD669 mln in FY 2010.

EBITDA(2): +23% y-o-y to USD279 mln from USD227 mln in FY 2010.

EBITDA margin increased to 36% from 34%.

Net profit: +64% to USD253 mln.

Net cash and cash equivalents position: USD167 mln at December 2011(3).

(3) Includes bank deposits from short term investments (See Note 19 of 2011 audited IFRS financial statements)

EBITDA

+23%

Year on year to USD279 mln
(2010: USD227 mln)

Revenue

+16%

Year on year to USD774 mln (2010: USD669 mln).

Financial review

Revenue grew on accelerating sales, increasing 16% year-on-year (y-o-y) to USD774 million from USD669 million in FY 2010.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached USD279 million, up 23% from USD227 million in FY 2010; EBITDA margin increased to 36% from 34% in FY 2010. This once again demonstrates Etalon's ability to extract value from our land bank and underscores the unique DNA of the Etalon Group offering: a robust vertically integrated platform, nationwide sales network and strong reputation.

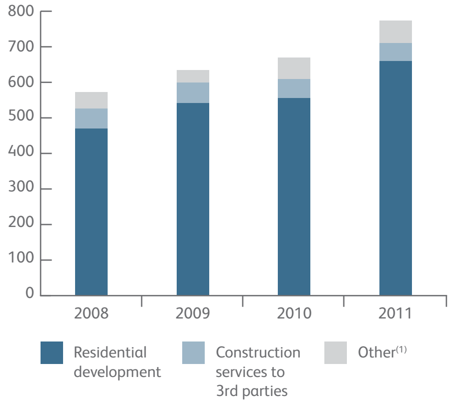
Net profit for the year increased 64% y-o-y to USD253 million.

Cash and cash equivalents increased by 276% and stood at USD490 million at year-end. The increase was primarily due to financing from the IPO, and this trend is expected to reverse as the Company invests into new projects.

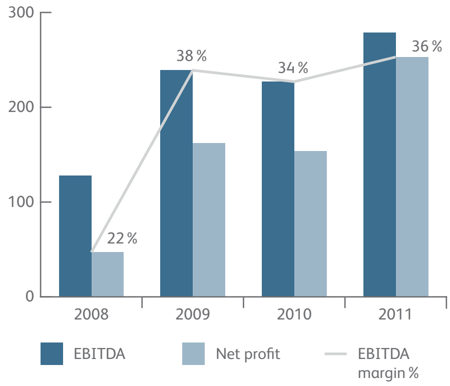
Etalon Group had a net cash and cash equivalents position of USD167 million at 31 December 2011, and gross debt of USD323 million with maturities spread evenly between 2012 and 2015.

Overall, our balanced debt maturity profile, solid track record and USD490 million of expansion capital will enable us to continue to acquire high quality projects and provide a perfect growth platform for the years to come.

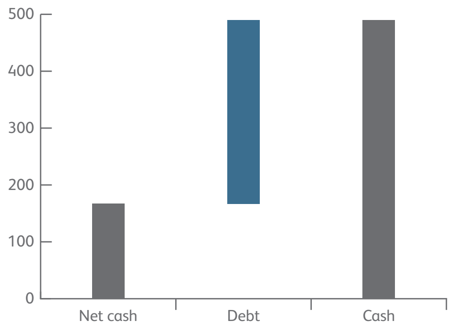
Revenue (USD mln)



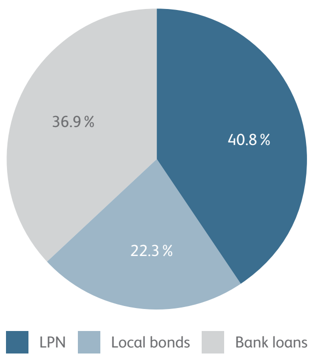
Net profit and EBITDA (USD mln)



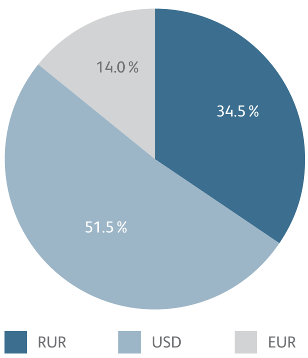
Net cash at 31/12/2011 (USD mln)



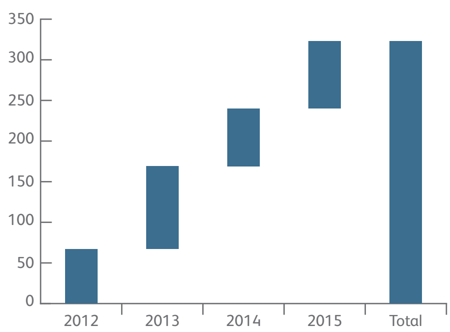
Debt composition by type of facility



Debt composition by currency



Debt cash flows maturity profit at 31/12/2011 (USD mln)

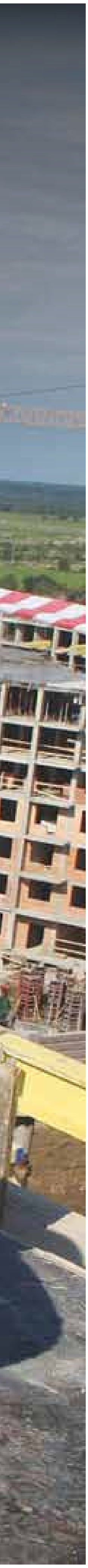


(1) Includes 'Other operations' reporting segment (selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises) and 'Other revenues' (reflect revenues from operations not classified under any of the three reporting segments).

(2) EBITDA throughout this report is defined as profit (loss) for the period before interest and related income/(expenses), income tax expense, depreciation and amortization.

Average USD/RUB fx rate in 2010	30.38
Average USD/RUB fx rate in 2011	29.39
End of period USD/RUR fx rate at 31 December 2011	32.20
End of period EUR/RUR fx rate at 31 December 2011	41.67

Sustainability



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

Health and safety
We consider the health and safety of our employees to be our most significant operational responsibility. We strive to create a healthy and safe working environment at each of our facilities and sites. We also educate our staff on safety issues through annual occupational safety workshops, and ensure that they have sufficient knowledge of workplace safety procedures before they are permitted to work on a site, or in a facility.

All our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections when installing any equipment in order to ensure proper installation and safety.

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

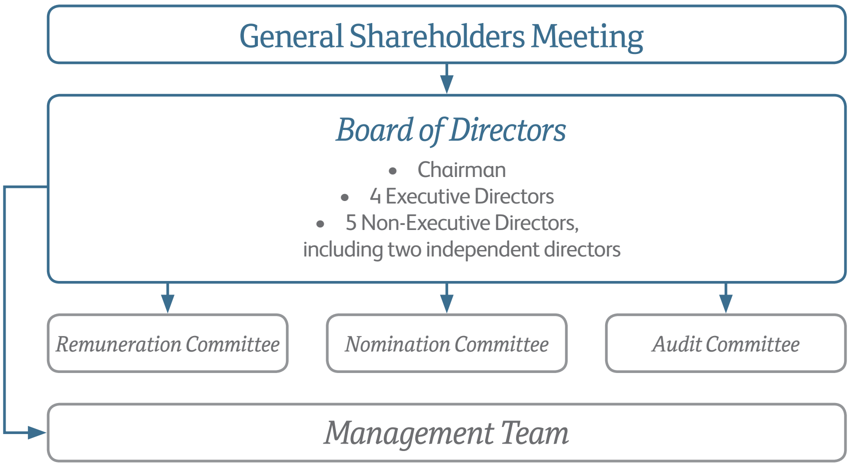
Society
We aim to support both culture and sports in our key areas of operation. Most recently, we supported the construction of a children's music school and motor and cycle training facilities in St. Petersburg. In addition, our construction subsidiary has supported the maintenance and revival of a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

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

Corporate Governance

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

Corporate Governance Structure



The ten members of our Board of Directors represent the interests of all investor groups, and our committee structure ensures that the board is kept fully cognisant of all issues affecting the business. This ensures that the Board can take decisions to keep the Group operating as efficiently as possible.

We are committed to upholding high standards in our relations with investors and other stakeholders. We report our results on a semi-annual basis, and issue trading updates quarterly. As well as holding regular events for our investors around this calendar, we maintain an active dialogue with all interested stakeholders on an ongoing basis.

Role and responsibilities of Board

Our Board of Directors comprises five executive and five non-executive directors (NEDs); two of our NEDs are also independent directors. The Board meets regularly, and brings together people with a wide range of experience in the construction business, as well as strategic planning, financial control, auditing and other key areas of governance.

The job of the Directors is to ensure that proper checks and balances are in place to serve the interests of our shareholders and that management is accountable for its performance.

Board Committees

Detailed oversight work is undertaken by the Board's committees. This helps ensure oversight is thorough, but the Board recognises that it is the full Board that ultimately retains responsibility. The Committees report back to the Board on issues that they feel need to be brought to the board's attention or decided at the board level.

Audit Committee

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

The current members of the Audit Committee are Martin Cocker (Chairman), Michael Calvey, Anton Evdokimov and Alexander Shkuratov. Martin Cocker has recent relevant financial experience as an audit partner within Deloitte & Touche CIS. Anton Evdokimov also has recent relevant financial experience as the chief financial officer of Etalon Group.

Whilst Etalon Group is not bound by the requirements of the UK Corporate Governance Code, the Audit Committee uses the requirements of the Code to guide it in its activities. We recognize that, in terms of membership, the Audit Committee is not compliant with the Code because only one member of the Audit Committee is strictly independent of the Company. However, the Audit Committee believes that its composition represents the best combination of available resources and is adequate for fulfilling its corporate governance responsibilities relating to the internal controls framework of the Company and its subsidiaries and any other matters referred to it by the Board. The Audit Committee met on three occasions during 2011. The non-executive directors on the Audit Committee regularly meet the external auditor without the presence of the Company's management. The Audit Committee's Chairman has also met the head of Internal Audit on several occasions without the Company's management being present. The key actions of the Audit Committee during the year have been:

- Drafting and agreement with the Board of the Audit Committee's terms of reference. The terms of reference were reviewed at the end of 2011 and will continued to be reviewed annually to ensure that they remain relevant;
- Review and approval of the terms of reference for Internal Audit and also its audit plan for the next two years. The Audit Committee has then monitored the results of the engagements conducted by Internal Audit during the year;
- Review of the Risk Management Framework document that will be used to identify and monitor the significant risks faced by the Group;
- Review of the performance and independence of the external auditor. The Audit Committee is satisfied with the performance of KPMG and so has recommended to the Board that they be reappointed as auditors.
- The development and oversight of our policy on the engagement of the external auditor to supply non-audit services. To ensure that the nature of non-audit services performed by the external auditor or the level of fee income relative to the audit fees does not compromise or is seen to compromise their independence, objectivity or integrity, the external auditor is excluded from undertaking a range of work.

Members:

- Martin Robert Cocker (Chairman)
- Michael John Calvey
- Anton Evdokimov
- Alexander Shkuratov

Remuneration Committee

The remuneration committee advises the Board of Directors on the remuneration of the Senior Managers and executive officers, terms and conditions of employment agreements with the Senior Managers. We adopted a decision on the establishment of the remuneration committee in November 2010 and are currently in the process of staffing the committee.

Nomination Committee

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

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

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

We adopted a decision on the establishment of the nomination committee in November 2010 and are currently in the process of staffing the committee.

Risk Management

A risk management framework has been established at Etalon Group to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits established. In particular, significant risks that may, if not managed correctly, materially affect achievement of the Group's objectives or lead to material misstatements in the Group's financial reports have been identified.
Risk management policies and systems are periodically reviewed to ensure that they are still relevant and complete as a result of any changes in market conditions and the Group's activities. The review also ensures that the identified risks are being managed effectively.
The function of the Chief Risk Officer is vested in one of the Group's senior managers.
The Audit Committee of the Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by internal audit.

Internal Audit

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

Board of Directors

Executive Directors:

01 Viacheslav Zarenkov
Chairman of the Board of Directors, Founding shareholder and President of Etalon Group
Viacheslav Zarenkov has 42 years of experience in the construction industry, and was awarded the title Honoured Builder of Russia. He graduated from the Institute of Civil Engineering and the St. Petersburg University of Internal Affairs. He holds PhDs in economics, technical sciences and architecture, and also holds the rank of professor.

02 Dmitri Zarenkov
First Vice-President of Etalon Group
Dmitri Zarenkov has 15 years of experience in the construction industry, and was awarded the title Honoured Builder of Russia by the Ministry for Regional Development. He holds a PhD in engineering, and graduated from the Institute of Aeronautical Instrumentation, St. Petersburg University of Architecture & Civil Engineering and St. Petersburg University of Internal Affairs.

03 Anton Evdokimov
CFO of Etalon Group
Anton Evdokimov has 25 years of experience in the construction industry, and holds the Ministry for Regional Development's Certificate of Honour. He studied at Leningrad Engineering Construction Institute and St. Petersburg State University and holds an MBA from the International Banking Institute.

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

05 Alexander Shkuratov
Head of Strategy and Business Development of Etalon Group
Alexander Shkuratov has six years of experience in the construction industry. Previously he worked at Baring Vostok, Carlyle Group, E&Y and Deloitte. He is a graduate of the Government of Russia Finance Academy.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Non-Executive Directors

06 Michael John Calvey
Michael John Calvey has been a Senior Partner at Baring Vostok since 1999.

He is a board member at Europlan, Volga Gas, Gallery Media Group, among others. He previously worked at EBRD, Salomon Brothers and Sovlink Corporation, and was a board member at CTC Media, Golden Telecom and Burren Energy. He graduated from the University of Oklahoma and the London School of Economics.

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

08 Martin Cocker
Martin Cocker has 16 years of experience in audit, and three years' experience in the construction industry. He runs his own development business in Portugal, and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and UK. He graduated from the University of Keele.

09 Anton Poriadine
Anton Poriadine has 10 years of experience in strategy consulting at A.T. Kearney, where he is Partner and Vice President. Previously he was project manager at Barents International Markets B.V., Corporate Development and Project Finance Director at Torno Internazionale S.p.A., and deputy General Manager of St. Petersburg Foundation for Enterprise Development.

He is a graduate of St. Petersburg Technical University and Business School at the University of Rochester.

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

Directors' Report

Principal activity
The Group's principal activity is residential development in Saint-Petersburg metropolitan area and Moscow metropolitan area.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

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

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

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

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

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

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

Peter Touzeau
Director

Anton Evdokimov
Director

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

We have audited the accompanying consolidated financial statements of Etalon Group Limited (the "Company", and together with its subsidiaries, the "Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2011, the Consolidated Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

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

Opinion
In our opinion, the consolidated financial statements:
- give a true and fair view of the consolidated financial position of the Group as at 31 December 2011 and of its consolidated financial performance and its consolidated cash flows for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:
- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Ewan McGill

Ewan F McGill
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
15 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

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

These consolidated financial statements were approved by the Board of Directors on 15 March 2012 and were signed on its behalf by:

Peter Touzeau
Director

Anton Evdokimov
Director

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 38 to 63.

Consolidated Statement of Financial Position

As at 31 December 2011

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

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 38 to 63.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

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

mln RUB	Share capital	Share premium	Reserve for own shares	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the Company						
Balance at 1 January 2011	1	1,951	–	10,157	12,109	459	**12,568**
Total comprehensive income for the year							
Profit for the year	–	–	–	7,332	7,332	108	**7,440**
Other comprehensive income							
Total comprehensive income for the year	–	–	–	7,332	7,332	108	**7,440**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Shares issued	–	13,487	–	–	13,487	–	**13,487**
Own shares acquired (Note 21)	–	–	(459)	–	(459)	–	**(459)**
Total contributions by and distributions to owners	–	13,487	(459)	–	13,028	–	**13,028**
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Changes in ownership interest in subsidiaries	–	–	–	215	215	(195)	**20**
Total transactions with owners	–	13,487	(459)	215	13,243	(195)	**13,048**
Balance at 31 December 2011	**1**	**15,438**	**(459)**	**17,704**	**32,684**	**372**	**33,056**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 38 to 63.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

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

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 38 to 63.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 BACKGROUND

(a) Organisation and operations

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

The Company's registered office is located at:

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

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

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

Related party transactions are disclosed in note 30.

(b) Business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Business combinations

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

(ii) Acquisitions of non-controlling interests

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

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

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

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

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

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

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

(b) Foreign currency

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

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

(c) Financial instruments

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents

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

(ii) Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

(d) Share capital

Ordinary shares

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

Repurchase of share capital

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2011.

(f) Leased assets

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

(g) Inventories

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

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

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

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

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

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

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

(h) Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

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

(i) Employee benefits

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

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

Defined contribution plans

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

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

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

(ii) Provision for deferred works

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

(k) Revenue

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

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

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

(ii) Revenue from construction services

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

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

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

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

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

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

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

(iii) Revenue from sale of construction materials

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

(iv) Rental income

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

(l) Other expenses

(i) Lease payments

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

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

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

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

(ii) Social expenditure

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

(m) Finance income and costs

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

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

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

(n) Income tax

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

(o) Earnings per share

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

(p) Segment reporting

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

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

(q) Application of new standards and interpretations

From 1 January 2011 the Group has applied the revised IAS 24 *Related Party Disclosures* (2010). The revised standard introduced an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard has been applied retrospectively. The amendment did not have any impact on the Group's consolidated financial statements.

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.
- The package of new and amended standards on consolidation: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, revised IAS 27 *Separate Financial Statements*, and revised IAS 28 *Investments in Associates and Joint Ventures*. The package of new and revised standards introduces the new model of control and treatment of joint arrangements and new disclosure requirements. The package is effective for annual periods beginning on or after 1 January 2013. The Group does not intend to adopt these standards early. The Group does not expect the package to have a material impact on its consolidated financial position and results of operations.
- New standard IFRS 13 *Fair Value Measurement*. The new standard sets new fair value measurement and disclosure requirements. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Group does not intend to adopt this standard early. The Group does not expect IFRS 13 to have a material impact on its consolidated financial position and results of operations.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 DETERMINATION OF FAIR VALUES

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

(a) Non-derivative financial assets

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

(b) Derivatives

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

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

(c) Non-derivative financial liabilities

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

5 OPERATING SEGMENTS

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

- *Residential Development.* Includes construction of residential real estate including flats, built-in premises and parking places.
- *Construction services.* Includes construction services for third parties.
- *Other operations.* Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments in 2011 or 2010.

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

(a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
External revenues	**19,359**	16,853	**1,532**	1,631	**650**	764	**21,541**	19,248
Inter-segment revenue	**–**	–	**7,425**	5,259	**1,446**	833	**8,871**	6,092
Total segment revenue	**19,359**	16,853	**8,957**	6,890	**2,096**	1,597	**30,412**	25,340
Gross profit	**9,091**	8,984	**879**	714	**541**	86	**10,511**	9,784
Reportable segment assets: inventory	**31,935**	25,572	**544**	381	**1,261**	1,358	**33,740**	27,311
Reportable segment liabilities: advances from customers	**7,772**	11,503	**1,739**	1,657	**180**	176	**9,961**	13,336

(b) Geographical information

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

	Revenues		Non-current assets	
mln RUB	**2011**	2010	**2011**	2010
St. Petersburg metropolitan area	**20,334**	20,064	**2,497**	2,785
Moscow metropolitan area	**2,407**	252	**922**	114
	22,741	20,316	**3,419**	2,899

Major customer

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

5 OPERATING SEGMENTS continued

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

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

	2011	2010
Assets		
Total assets for reportable segments: inventory	**33,740**	27,311
Elimination of unrealised gain	**(1,698)**	(1,671)
Other	**51**	11
Total inventories	**32,047**	25,651
Liabilities		
Total liabilities for reportable segments: advances from customers	**9,691**	13,336
Elimination of intersegment advances	**(1,338)**	(1,555)
Other unallocated amounts	**380**	133
Total advances from customers	**8,733**	11,914

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

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

6 ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

(a) Acquisition of subsidiaries

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

(b) Changes in non-controlling interests

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

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

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

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

(c) Disposal of subsidiaries due to loss of control

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

7 REVENUE

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

8 CONSTRUCTION CONTRACTS

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

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

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

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

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

9 GENERAL AND ADMINISTRATIVE EXPENSES

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

10 OTHER INCOME (EXPENSES), NET

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

11 PERSONNEL COSTS

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

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

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

12 FINANCE INCOME AND FINANCE COSTS

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

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

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

During the year ended 31 December 2011, borrowing costs in the amount of RUB 169 million (year ended 31 December 2010: nil) that have been capitalised into the cost of real estate properties under construction, were included into the cost of sales upon completion of construction and sale of those properties.

13 INCOME TAX EXPENSE

The Company's applicable tax rate under the Income Tax (Zero/Ten) (Guernsey) Law, 2007 is 0%.

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (year 2010: 20%).

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT

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

(a) Security

At 31 December 2011 properties with a carrying amount of RUB 85 million (31 December 2010: RUB 88 million) are subject to a registered debenture to secure bank loans (see note 23).

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2011 the net book value of leased plant and machinery was RUB 270 million (31 December 2010: RUB 288 million). The leased equipment secures lease obligations.

14 PROPERTY, PLANT AND EQUIPMENT continued

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2010	548	1,493	61	85	45	64	**2,296**
Additions	219	51	15	19	–	35	**339**
Acquired through business combinations	6	16	2	–	–	–	**24**
Disposals	(77)	(63)	(7)	(5)	–	(5)	**(157)**
Transfer to inventory	–	–	–	–	(33)	–	**(33)**
Transfers	13	1	–	1	–	(14)	**1**
Balance at 31 December 2010	709	1,498	71	100	12	80	**2,470**
Balance at 1 January 2011	709	1,498	71	100	12	80	**2,470**
Additions	102	149	34	13	–	57	**355**
Reclassification from inventory	460	–	–	–	–	–	**460**
Disposals	(81)	(48)	(17)	(9)	–	–	**(155)**
Transfer to inventory	–	–	–	–	–	(112)	**(112)**
Transfers	12	–	–	–	–	(12)	**–**
Balance at 31 December 2011	**1,202**	**1,599**	**88**	**104**	**12**	**13**	**3,018**
Depreciation and impairment losses							
Balance at 1 January 2010	(165)	(382)	(30)	(57)	–	–	**(634)**
Depreciation for the period	(71)	(195)	(10)	(17)	–	–	**(293)**
Disposals	66	43	4	4	–	–	**117**
Balance at 31 December 2010	(170)	(534)	(36)	(70)	–	–	**(810)**
Balance at 1 January 2011	(170)	(534)	(36)	(70)	–	–	**(810)**
Depreciation for the period	(71)	(196)	(11)	(14)	–	–	**(292)**
Disposals	40	32	14	7	–	–	**93**
Balance at 31 December 2011	**(201)**	**(698)**	**(33)**	**(77)**	**–**	**–**	**(1,009)**
Carrying amounts							
At 1 January 2010	383	1,111	31	28	45	64	**1,662**
At 31 December 2010	539	964	35	30	12	80	**1,660**
At 31 December 2011	1,001	901	55	27	12	13	**2,009**

15 OTHER LONG-TERM INVESTMENTS

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

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

16 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

(b) Unrecognised deferred tax liability

At 31 December 2011 a deferred tax liability of RUB 829 million (31 December 2010: RUB 562 million) arising on temporary differences of RUB 16,580 million (31 December 2010: RUB 11,248 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the year

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

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

17 INVENTORIES

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

During the year ended 31 December 2010 the Group has acquired rights on the certain land plot with the total value of RUB 473 million, of which RUB 99 million represents cash payment contingent on the receipt of the construction permit. The total value of the land plot of RUB 473 million is included in Own flats under construction. In addition to that, the Group has to transfer to the Seller certain number of flats (up to 20%) to be constructed on this land plot, which is also contingent on the receipt of the construction permit. As of 31 December 2011 construction permit has not been received.

The following is movement in the allowance for obsolete inventory:

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

The amount of allowance of RUB 137 million out of RUB 143 million relates to one item of stand-alone commercial property (31 December 2010: RUB 437 million). The allowance, in the absence of the market transactions for sale and purchase of similar assets, was estimated using future cash flow techniques. Cash flows were estimated as if the property has been rented out. At 31 December 2011 the gross value of the property item equals to RUB 900 million (31 December 2010: RUB 891 million). The change in allowance is based on new rent contracts concluded during the year ended 31 December 2011 that increases estimated future cash flows.

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

The Group has temporarily rented out part of certain items of property classified as inventory in these consolidated financial statements. The total carrying value of these items of property was RUB 1,514 million as at 31 December 2011 (31 December 2010: RUB 855 million). The Group actively seeks for the buyer for these properties.

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

18 TRADE AND OTHER RECEIVABLES

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

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

19 SHORT-TERM INVESTMENTS

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

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

20 CASH AND CASH EQUIVALENTS

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

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

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

21 CAPITAL AND RESERVES

(a) Share capital and share premium

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

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

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

Share split

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

Issue of new shares and completion of initial public offering

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

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

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

Acquisition of own shares

On 23 November 2011 the independent shareholders of the Company approved the purchase of Global Depositary Receipts (GDR's) representing ordinary shares of the Company of up to 9.25% of the Company's issued share capital. The Programme commenced on 24 November 2011 and will continue until 23 November 2012, unless terminated earlier by the Company. As of 31 December 2011 the Group has acquired 2,838,000 own shares (1% of issued share capital) for the consideration of RUB 459 million.

(b) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2011 the total of subsidiaries' retained earnings, including the profits for the current year were RUB 16,386 million (31 December 2010: RUB 11,028 million).

22 EARNINGS PER SHARE

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

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

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

23 LOANS AND BORROWINGS

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

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

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

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

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

Bank loans are secured by:

- Buildings with a carrying amount of RUB 85 million see note 14.
- Inventory with a carrying amount of RUB 468 million, see note 17.

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

24 PROVISIONS

mln RUR	Warranties	Provision for deferred works	Total
Balance at 1 January 2010	83	1,923	2,006
Provisions made during the year	7	1,170	1,177
Provisions used during the year	(9)	(1,904)	(1,913)
Balance at 31 December 2010	81	1,189	1,270
Balance at 1 January 2011	81	1,189	1,270
Provisions made during the year	8	1,497	1,505
Provisions used during the year	(12)	(1,126)	(1,138)
Balance at 31 December 2011	**77**	**1,560**	**1,637**
Non-current	77	–	77
Current	–	1,560	1,560
	77	1,560	1,637

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

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

25 TRADE AND OTHER PAYABLES

mln RUB	2011	2010
Long-term		
Advances from customers	**2**	74
Finance lease liabilities	**3**	44
Trade payables	**32**	61
Other payables	**11**	82
	48	261
Short-term		
Advances from customers	**8,731**	10,215
Trade payables	**2,271**	2,540
Billings in excess of work completed	**117**	119
Payroll liabilities	**242**	245
Income tax payable	**447**	367
VAT payable	**1,140**	427
Finance lease liabilities	**55**	84
Other taxes payable	**86**	72
Other payables	**450**	215
	13,539	14,284
Total	**13,587**	14,545

In 2008 the Group acquired a land plot for construction in the Moscow region. The acquisition was partly paid in cash; the remaining amount was partly settled in 2011 by means of transfer of real estate properties completed during 2011. The amount, which remains to be settled, equals to RUB 785 million as at 31 December 2011 (31 December 2010: RUB 2,252 million), is recognised within trade payables.

Advances from customers are represented by prepayments for housing and commercial properties made under sales contracts. In case customers cancel sales contracts, advances received by the Group are repaid within 3 months from the moment of cancellation, but withholding 5-10% forfeit.

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

Finance lease liabilities are payable as follows:

	2011			2010		
mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	56	1	55	91	7	84
Between one and five years	3	–	3	45	1	44
	59	1	58	136	8	128

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

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

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

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

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

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

(b) Credit risk

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

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

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

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no customers accounting individually for more than 10% of the Group's balance of trade and other receivables as at 31 December 2011 (31 December 2010: none).

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

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(ii) Guarantees

As at 31 December 2011 the Group had not provided any financial guarantees to entities outside the Group (31 December 2010: nil).

(iii) Exposure to credit risk

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

	Carrying amount	
mln RUB	2011	2010
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	4,878	2,124
Cash and cash equivalents	14,484	3,636
	19,362	5,760

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

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

Impairment losses

The aging of trade receivables at the reporting date was:

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

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

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

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

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

(c) Liquidity risk

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

Each year the Group prepares a cash flow budget to forecast possible liquidity deficits and to define the sources of financing of those deficits.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Contractual maturities of financial liabilities were as follows:

mln RUB 2011	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	1,458	1,627	359	43	681	430	114	–	–
Unsecured bank loans	6,628	8,160	379	403	2,555	2,734	2,089	–	–
Secured loans from other parties	1	1	–	1	–	–	–	–	–
Unsecured bond issues	2,319	2,626	972	1,011	643	–	–	–	–
Finance lease liabilities	58	598	40	16	2	1	–	–	–
Trade and other payables (excluding taxes payable)	11,856	11,856	7,721	1,168	2,884	33	23	20	7
	22,320	**24,329**	**9,471**	**2,642**	**6,765**	**3,198**	**2,226**	**20**	**7**

mln RUB 2010	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	423	471	11	62	18	380	–	–	–
Unsecured bank loans	4,084	5,844	244	254	505	1,269	2,412	1,160	–
Secured loans from other parties	7	7	–	7	–	–	–	–	–
Unsecured bond issues	3,612	4,422	871	925	1,983	643	–	–	–
Finance lease liabilities	128	137	44	43	50	–	–	–	–
Trade and other payables (excluding taxes payable)	13,551	13,551	13,154	181	185	28	–	3	–
	21,805	24,432	14,324	1,472	2,741	2,320	2,412	1,163	–

(d) Market risk

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

(i) Currency risk

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

Exposure to currency risk

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

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

The following significant exchange rates applied during the year:

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

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Sensitivity analysis

A weakening of the RUB, as indicated below, against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

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

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

(ii) Interest rate risk

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

Profile

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

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

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

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

(e) Fair values versus carrying amounts

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

(f) Capital management

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

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

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

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

Finance lease liabilities (RUB 58 million at 31 December 2011, RUB 128 million at 31 December 2010) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

27 OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

mln RUB	2011	2010
Less than one year	**105**	75
Between one and five years	**154**	144
More than five years	**110**	44
	369	263

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

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

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

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

28 CAPITAL COMMITMENTS

As at 31 December 2011 the Group does not have any capital commitments (31 December 2010: nil).

29 CONTINGENCIES

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

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

30 RELATED PARTY TRANSACTIONS

(a) Transactions with management

(i) Management remuneration

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

mln RUB	2011	2010
Salaries and bonuses	**232**	157
	232	157

(ii) Other transactions

Sales to key management personnel are disclosed below:

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

(b) Transactions with other related parties

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

(i) Revenue

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

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

(ii) Expenses

	Transaction value		Outstanding balance	
mln RUB	2011	2010	2011	2010
Other related parties	**35**	34	**8**	8
Equity accounted investees	**–**	21	**–**	5
	35	55	**8**	13

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

(iii) Loans

	Amount loaned		Outstanding balance	
mln RUB	2011	2010	2011	2010
Loans given:				
Equity accounted investees	**–**	10	**–**	10
Other related parties	**108**	6	**2**	4
Loans received:				
Other related parties	**(1)**	–	**(1)**	–
	107	16	**1**	14

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

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

31 GROUP ENTITIES

Significant subsidiaries

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

As of 31 December 2011 the Group controlled 88 legal entities (31 December 2010: 83), including SPE described in note 3(a)(iv). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

32 EVENTS SUBSEQUENT TO THE REPORTING DATE

Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 31 December 2011 for the total amount of RUB 271 million.

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

Notes

Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

Etalon Group Limited
Ogier House
St Julian's Avenue
St Peter Port
Guernsey
GY1 1WA

Tel: +44 (0)20 8123 1328
Fax: +44 (0)20 8123 1328
Email: info@etalongroup.com

Etalon Group