

# Etalon Group Limited

Consolidated Interim Financial Statements  
For the Six Months Ended 30 June 2012



## Contents

|   |                                                        |
|---|--------------------------------------------------------|
| 2 | Independent Review Report                              |
| 3 | Consolidated Interim Statement of Comprehensive Income |
| 4 | Consolidated Interim Statement of Financial Position   |
| 5 | Consolidated Interim Statement of Changes in Equity    |
| 6 | Consolidated Interim Statement of Cash Flows           |
| 7 | Notes to the Consolidated Interim Financial Statements |

# Independent Auditors' Report on Review of Interim Financial Statements to Etalon Group Limited

## Introduction

We have reviewed the accompanying consolidated interim statement of financial position of Etalon Group Limited ("the Company") as at 30 June 2012, the consolidated interim statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects the financial position of the entity as at 30 June 2012, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34, 'Interim Financial Reporting'.



KPMG Channel Islands Limited  
8 October 2012

# Consolidated Interim Statement of Comprehensive Income

For the Six Months Ended 30 June 2012

| mln RUB                                            | Note | Six months ended 30 June |              |
|----------------------------------------------------|------|--------------------------|--------------|
|                                                    |      | 2012                     | 2011         |
| Revenue                                            | 7    | 12,157                   | 9,412        |
| Cost of sales                                      |      | (7,797)                  | (4,753)      |
| <b>Gross profit</b>                                |      | <b>4,360</b>             | <b>4,659</b> |
| General and administrative expenses                | 9    | (1,195)                  | (1,020)      |
| Selling expenses                                   |      | (389)                    | (336)        |
| Other (expenses)/income, net                       | 10   | (27)                     | 37           |
| <b>Results from operating activities</b>           |      | <b>2,749</b>             | <b>3,340</b> |
| Finance income                                     | 12   | 367                      | 235          |
| Finance costs                                      | 12   | (96)                     | (20)         |
| <b>Net finance income</b>                          |      | <b>271</b>               | <b>215</b>   |
| <b>Profit before income tax</b>                    |      | <b>3,020</b>             | <b>3,555</b> |
| Income tax expense                                 | 13   | (651)                    | (804)        |
| <b>Profit for the period</b>                       |      | <b>2,369</b>             | <b>2,751</b> |
| <b>Total comprehensive income for the period</b>   |      | <b>2,369</b>             | <b>2,751</b> |
| <b>Profit attributable to:</b>                     |      |                          |              |
| Owners of the Company                              |      | 2,342                    | 2,723        |
| Non-controlling interest                           |      | 27                       | 28           |
| <b>Profit for the period</b>                       |      | <b>2,369</b>             | <b>2,751</b> |
| <b>Total comprehensive income attributable to:</b> |      |                          |              |
| Owners of the Company                              |      | 2,342                    | 2,723        |
| Non-controlling interest                           |      | 27                       | 28           |
| <b>Total comprehensive income for the period</b>   |      | <b>2,369</b>             | <b>2,751</b> |
| <b>Earnings per share</b>                          |      |                          |              |
| Basic and diluted earnings per share (RUB)         | 22   | 8.02                     | 10.82        |

These consolidated interim financial statements were approved by the Board of Directors on 8 October 2012 and were signed on its behalf by:



**Peter Touzeau**  
Director



**Anton Evdokimov**  
Director

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 7 to 32.

# Consolidated Interim Statement of Financial Position

As at 30 June 2012

| mln RUB                                                           | Note | 30 June<br>2012 | 31 Dec<br>2011 |
|-------------------------------------------------------------------|------|-----------------|----------------|
| <b>ASSETS</b>                                                     |      |                 |                |
| <b>Non-current assets</b>                                         |      |                 |                |
| Property, plant and equipment                                     | 14   | 2,152           | 2,009          |
| Other long-term investments                                       | 15   | 48              | 88             |
| Trade and other receivables                                       | 18   | 472             | 551            |
| Deferred tax assets                                               | 16   | 536             | 679            |
| Other non-current assets                                          |      | 10              | 92             |
| <b>Total non-current assets</b>                                   |      | <b>3,218</b>    | <b>3,419</b>   |
| <b>Current assets</b>                                             |      |                 |                |
| Inventories                                                       | 17   | 34,613          | 32,047         |
| Trade and other receivables                                       | 18   | 8,200           | 7,473          |
| Short-term investments                                            | 19   | 3,032           | 1,327          |
| Cash and cash equivalents                                         | 20   | 13,276          | 14,484         |
| Other current assets                                              |      | 13              | 34             |
| <b>Total current assets</b>                                       |      | <b>59,134</b>   | <b>55,365</b>  |
| <b>Total assets</b>                                               |      | <b>62,352</b>   | <b>58,784</b>  |
| <b>EQUITY AND LIABILITIES</b>                                     |      |                 |                |
| <b>Equity</b>                                                     |      |                 |                |
| Share capital                                                     | 21   | 14,967          | 14,980         |
| Retained earnings                                                 |      | 20,009          | 17,704         |
| <b>Total equity attributable to equity holders of the Company</b> |      | <b>34,976</b>   | <b>32,684</b>  |
| Non-controlling interest                                          |      | 436             | 372            |
| <b>Total equity</b>                                               |      | <b>35,412</b>   | <b>33,056</b>  |
| <b>Non-current liabilities</b>                                    |      |                 |                |
| Loans and borrowings                                              | 23   | 7,466           | 8,456          |
| Trade and other payables                                          | 25   | 30              | 48             |
| Provisions                                                        | 24   | 61              | 77             |
| Deferred tax liabilities                                          | 16   | 272             | 98             |
| <b>Total non-current liabilities</b>                              |      | <b>7,829</b>    | <b>8,679</b>   |
| <b>Current liabilities</b>                                        |      |                 |                |
| Loans and borrowings                                              | 23   | 3,375           | 1,950          |
| Trade and other payables                                          | 25   | 14,570          | 13,539         |
| Provisions                                                        | 24   | 1,166           | 1,560          |
| <b>Total current liabilities</b>                                  |      | <b>19,111</b>   | <b>17,049</b>  |
| <b>Total equity and liabilities</b>                               |      | <b>62,352</b>   | <b>58,784</b>  |

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 7 to 32.

# Consolidated Interim Statement of Changes in Equity

For the Six Months Ended 30 June 2012

| mln RUB                                                      | Attributable to equity holders of the Company |                   |        | Non-controlling interest | Total equity |
|--------------------------------------------------------------|-----------------------------------------------|-------------------|--------|--------------------------|--------------|
|                                                              | Share capital                                 | Retained earnings | Total  |                          |              |
| <b>Balance at 1 January 2011</b>                             | 1,952                                         | 10,157            | 12,109 | 459                      | 12,568       |
| <b>Total comprehensive income for the period</b>             |                                               |                   |        |                          |              |
| Profit for the period                                        | –                                             | 2,723             | 2,723  | 28                       | 2,751        |
| Total comprehensive income for the period                    | –                                             | 2,723             | 2,723  | 28                       | 2,751        |
| <b>Transactions with owners, recorded directly in equity</b> |                                               |                   |        |                          |              |
| <b>Contributions by and distributions to owners</b>          |                                               |                   |        |                          |              |
| Shares issued                                                | 13,487                                        | –                 | 13,487 | –                        | 13,487       |
| Total contributions by and distributions to owners           | 13,487                                        | –                 | 13,487 | –                        | 13,487       |
| Total transactions with owners                               | 13,487                                        | –                 | 13,487 | –                        | 13,487       |
| <b>Balance at 30 June 2011</b>                               | 15,439                                        | 12,880            | 28,319 | 487                      | 28,806       |

| mln RUB                                                                                       | Attributable to equity holders of the Company |                   |        | Non-controlling interest | Total equity |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------|--------|--------------------------|--------------|
|                                                                                               | Share capital                                 | Retained earnings | Total  |                          |              |
| <b>Balance at 1 January 2012</b>                                                              | 14,980                                        | 17,704            | 32,684 | 372                      | 33,056       |
| <b>Total comprehensive income for the period</b>                                              |                                               |                   |        |                          |              |
| Profit for the period                                                                         | –                                             | 2,342             | 2,342  | 27                       | 2,369        |
| <b>Total comprehensive income for the period</b>                                              | –                                             | 2,342             | 2,342  | 27                       | 2,369        |
| <b>Transactions with owners, recorded directly in equity</b>                                  |                                               |                   |        |                          |              |
| <b>Contributions by and distributions to owners</b>                                           |                                               |                   |        |                          |              |
| Own shares acquired (Note 21)                                                                 | (13)                                          | –                 | (13)   | –                        | (13)         |
| Total contributions by and distributions to owners                                            | (13)                                          | –                 | (13)   | –                        | (13)         |
| <b>Changes in ownership interests in subsidiaries that do not result in a loss of control</b> |                                               |                   |        |                          |              |
| <b>Changes in ownership interest in subsidiaries</b>                                          |                                               |                   |        |                          |              |
| Total transactions with owners                                                                | (13)                                          | (37)              | (50)   | 37                       | (13)         |
| <b>Balance at 30 June 2012</b>                                                                | 14,967                                        | 20,009            | 34,976 | 436                      | 35,412       |

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 7 to 32.

# Consolidated Interim Statement of Cash Flows

For the Six Months Ended 30 June 2012

|                                                                                 |      | Six months ended 30 June |         |
|---------------------------------------------------------------------------------|------|--------------------------|---------|
| mln RUB                                                                         | Note | 2012                     | 2011    |
| OPERATING ACTIVITIES:                                                           |      |                          |         |
| Profit for the period                                                           |      | 2,369                    | 2,751   |
| Adjustments for:                                                                |      |                          |         |
| Depreciation                                                                    | 14   | 209                      | 127     |
| Gain on disposal of property, plant and equipment                               |      | (27)                     | (59)    |
| Loss on disposal of subsidiaries                                                |      | –                        | 1       |
| Gain on disposal of other investments                                           |      | –                        | (24)    |
| Finance income, net                                                             |      | (237)                    | (212)   |
| Income tax expense                                                              |      | 651                      | 804     |
| Cash from operating activities before changes in working capital and provisions |      | 2,965                    | 3,388   |
| Change in inventories                                                           |      | (2,082)                  | (1,772) |
| Change in accounts receivable                                                   |      | (401)                    | (915)   |
| Change in accounts payable                                                      |      | 1,434                    | (437)   |
| Change in provisions                                                            | 24   | (410)                    | (151)   |
| Change in other current assets                                                  |      | 21                       | 28      |
| Income tax paid                                                                 |      | (936)                    | (1,370) |
| Interest paid                                                                   |      | (476)                    | (547)   |
| Net cash from/(used in) operating activities                                    |      | 115                      | (1,776) |
| INVESTING ACTIVITIES:                                                           |      |                          |         |
| Proceeds from disposal of non-current assets                                    |      | 41                       | 98      |
| Interest received                                                               |      | 251                      | 69      |
| Acquisition of property, plant and equipment                                    |      | (297)                    | (191)   |
| Loans given                                                                     |      | (11)                     | (61)    |
| Loans repaid                                                                    |      | 23                       | 53      |
| Disposal of subsidiaries, net of cash disposed of                               |      | –                        | 1       |
| Acquisition of other investments (bank deposits)                                |      | (1,677)                  | (493)   |
| Net cash used in investing activities                                           |      | (1,670)                  | (524)   |
| FINANCING ACTIVITIES:                                                           |      |                          |         |
| Proceeds from initial public offering                                           |      | –                        | 13,487  |
| Proceeds from disposal of non-controlling interest                              |      | –                        | 24      |
| Proceeds from borrowings                                                        |      | 2,769                    | 2,280   |
| Repayments of borrowings                                                        |      | (2,450)                  | (777)   |
| Acquisition of own shares                                                       |      | (13)                     | –       |
| Net cash from financing activities                                              |      | 306                      | 15,014  |
| Net (decrease)/increase in cash and cash equivalents                            |      | (1,249)                  | 12,714  |
| Cash and cash equivalents at the beginning of the period                        |      | 14,484                   | 3,636   |
| Effect of exchange rate fluctuations on cash and cash equivalents               |      | 41                       | (204)   |
| Cash and cash equivalents at the end of the period                              | 20   | 13,276                   | 16,146  |

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 7 to 32.

# Notes to the Consolidated Interim Financial Statements

For the Six Months Ended 30 June 2012

## 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’s Avenue  
St. Peter Port  
Guernsey  
GY1 IWA

The Group’s principal activity is residential development in St.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 interim 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 interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and the directors have elected to prepare accounts that comply with International Financial Reporting Standards.

### (b) Basis of measurement

The consolidated interim 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 interim 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 interim 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 recognized 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 recognized in the consolidated interim 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 interim 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 recognized as a result of such transactions.



# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. 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 recognized at the carrying amounts recognized previously in acquired entity's financial statements. Any difference between the book value of net assets acquired and consideration paid is recognized as a contribution from, or distribution to, shareholders.

### (vi) Loss of control

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

### (vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## (b) Foreign currency

### (i) Foreign currency transactions

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

### (ii) Foreign operations

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

## (c) Financial instruments

### (i) Non-derivative financial instruments

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

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

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

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

### Loans and receivables

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

### Cash and cash equivalents

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (ii) Financial liabilities

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

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

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

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

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

### (d) Share capital

#### Ordinary shares

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

#### Repurchase of share capital

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

### (e) Property, plant and equipment

#### (i) Recognition and measurement

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

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

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

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

#### (ii) Subsequent costs

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

#### (iii) Depreciation

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

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

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

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

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

### (f) Leased assets

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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 occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

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

### (h) Impairment

#### (i) Financial assets

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

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

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

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

#### (ii) Non-financial assets

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

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

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

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

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (i) Employee benefits

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

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

### Defined contribution plans

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

### (j) Provisions

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

### (i) Warranties

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

### (ii) Provision for deferred works

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

### (k) Revenue

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

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

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

#### (ii) Revenue from construction services

For accounting purposes the Group distinguishes two types of construction contracts:

- 1) Contracts for provision of construction services;
- 2) Contracts for construction of an asset falling within the scope of IAS 11 *Construction Contracts*.

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

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

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

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

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

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (iii) Revenue from sale of construction materials

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

### (iv) Rental income

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

### (l) Other expenses

#### (i) Lease payments

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

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

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

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

#### (ii) Social expenditure

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

### (m) Finance income and costs

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

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

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

### (n) Income tax

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

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

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

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

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

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

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

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (o) Earnings per share

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

### (p) Segment reporting

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

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

### (q) Application of new standards and interpretations

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

From 1 January 2012 the Group has applied the amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduced an exception to the measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment did not have any impact on the Group's consolidated interim 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 30 June 2012, and have not been applied in preparing these consolidated interim financial statements. The Group plans to adopt these pronouncements when they become effective.

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



# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 4 DETERMINATION OF FAIR VALUES

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

### (a) Non-derivative financial assets

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

### (b) Derivatives

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

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

### (c) Non-derivative financial liabilities

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

## 5 OPERATING SEGMENTS

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

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

### (a) Information about reportable segments

| mIn RUB                                                 | Residential development  |        | Construction services    |        | Other                    |        | Total                    |        |
|---------------------------------------------------------|--------------------------|--------|--------------------------|--------|--------------------------|--------|--------------------------|--------|
|                                                         | Six months ended 30 June |        | Six months ended 30 June |        | Six months ended 30 June |        | Six months ended 30 June |        |
|                                                         | 2012                     | 2011   | 2012                     | 2011   | 2012                     | 2011   | 2012                     | 2011   |
| External revenues                                       | 8,329                    | 8,147  | 2,455                    | 490    | 576                      | 254    | 11,360                   | 8,891  |
| Inter-segment revenue                                   | –                        | –      | 3,243                    | 2,688  | 350                      | 689    | 3,593                    | 3,377  |
| Total segment revenue                                   | 8,329                    | 8,147  | 5,698                    | 3,178  | 926                      | 943    | 14,953                   | 12,268 |
| Gross profit                                            | 3,427                    | 4,138  | 772                      | 256    | 69                       | 62     | 4,268                    | 4,456  |
|                                                         |                          |        |                          |        |                          |        |                          |        |
| mIn RUB                                                 | 30 June                  | 31 Dec | 30 June                  | 31 Dec | 30 June                  | 31 Dec | 30 June                  | 31 Dec |
|                                                         | 2012                     | 2011   | 2012                     | 2011   | 2012                     | 2011   | 2012                     | 2011   |
| Reportable segment assets: inventory                    | 34,985                   | 31,935 | 548                      | 544    | 1,073                    | 1,261  | 36,606                   | 33,740 |
| Reportable segment liabilities: advances from customers | 8,874                    | 7,772  | 532                      | 1,739  | 58                       | 180    | 9,464                    | 9,691  |

### (b) Geographical information

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

| mIn RUB                          | Revenues                 |       | Non-current assets |        |
|----------------------------------|--------------------------|-------|--------------------|--------|
|                                  | Six months ended 30 June |       | 30 June            | 31 Dec |
|                                  | 2012                     | 2011  | 2012               | 2011   |
| St. Petersburg metropolitan area | 11,791                   | 9,402 | 2,265              | 2,497  |
| Moscow metropolitan area         | 366                      | 10    | 953                | 922    |
|                                  | 12,157                   | 9,412 | 3,218              | 3,419  |

### (c) Major customer

Revenue from one customer of the Group represented RUB 2 243 million or 18% of the Group's total revenue for the six months ended 30 June 2012 (revenue from this customer for the six months ended 30 June 2011: nil).

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 5 OPERATING SEGMENTS CONTINUED

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

| mln RUB                                                            | Six months ended 30 June |                |
|--------------------------------------------------------------------|--------------------------|----------------|
|                                                                    | 2012                     | 2011           |
| <b>Revenues</b>                                                    |                          |                |
| Total revenue for reportable segments                              | 14,953                   | 12,268         |
| Other revenue                                                      | 797                      | 521            |
| Elimination of inter-segment revenue                               | (3,593)                  | (3,377)        |
| Consolidated revenue                                               | 12,157                   | 9,412          |
| <b>Profit or loss</b>                                              |                          |                |
| Gross profit for reportable segments                               | 4,268                    | 4,456          |
| General and administrative expenses                                | (1,195)                  | (1,020)        |
| Selling expenses                                                   | (389)                    | (336)          |
| Other (expenses)/income, net                                       | (27)                     | 37             |
| Finance income                                                     | 367                      | 235            |
| Finance costs                                                      | (96)                     | (20)           |
| Elimination of inter-segment profit                                | (111)                    | 161            |
| Other profit or loss                                               | 203                      | 42             |
| Consolidated profit before income tax                              | 3,020                    | 3,555          |
|                                                                    | 30 June<br>2012          | 31 Dec<br>2011 |
| <b>Assets</b>                                                      |                          |                |
| Total assets for reportable segments: inventory                    | 36,606                   | 33,740         |
| Elimination of unrealised gain                                     | (2,001)                  | (1,698)        |
| Other                                                              | 8                        | 5              |
| <b>Total inventories</b>                                           | <b>34,613</b>            | <b>32,047</b>  |
| <b>Liabilities</b>                                                 |                          |                |
| Total liabilities for reportable segments: advances from customers | 9,464                    | 9,691          |
| Elimination of intersegment advances                               | (522)                    | (1,338)        |
| Other unallocated amounts                                          | 305                      | 380            |
| <b>Total advances from customers</b>                               | <b>9,247</b>             | <b>8,733</b>   |

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

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

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

### (a) Acquisition of subsidiary

There were no significant acquisitions of controlling interests in businesses during the six months ended 30 June 2012 and 2011.

### (b) Changes in non-controlling interests

During the six months ended 30 June 2012 the Group's partially-owned subsidiary has converted intra-group loan given to other subsidiary of the Group into the shares of that subsidiary. As a result, the Group recognised an increase in non-controlling interest of RUB 37 million and corresponding decrease in retained earnings directly in equity.



# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 7 REVENUE

| mln RUB                                 | Six months ended 30 June |              |
|-----------------------------------------|--------------------------|--------------|
|                                         | 2012                     | 2011         |
| Sale of flats                           | 7,778                    | 7,507        |
| Construction services                   | 2,455                    | 490          |
| Sale of built-in commercial premises    | 416                      | 513          |
| Sale of stand-alone commercial premises | 170                      | 59           |
| Sale of parking places                  | 135                      | 127          |
| Sale of construction materials          | 406                      | 194          |
| Rental revenue                          | 184                      | 81           |
| Other revenue                           | 613                      | 441          |
| <b>Total revenues</b>                   | <b>12,157</b>            | <b>9,412</b> |

## 8 CONSTRUCTION CONTRACTS

| mln RUB                                   | Six months ended 30 June |           |
|-------------------------------------------|--------------------------|-----------|
|                                           | 2012                     | 2011      |
| Revenue recognised during the year        | 2,288                    | 311       |
| Costs incurred                            | (1,778)                  | (285)     |
| <b>Recognised profits during the year</b> | <b>510</b>               | <b>26</b> |

  

| mln RUB                                                                                      | 30 June<br>2012 | 31 Dec<br>2011 |
|----------------------------------------------------------------------------------------------|-----------------|----------------|
|                                                                                              |                 |                |
| For contracts in progress— aggregate amount of costs incurred and recognised profits to date | 3,749           | 1,483          |
| Unbilled receivables                                                                         | 37              | 9              |
| Billings in excess of work completed                                                         | 155             | 117            |
| <b>Retentions relating to construction contracts</b>                                         | <b>124</b>      | <b>38</b>      |

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

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

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

## 9 GENERAL AND ADMINISTRATIVE EXPENSES

| mln RUB                       | Six months ended 30 June |              |
|-------------------------------|--------------------------|--------------|
|                               | 2012                     | 2011         |
| Payroll and related taxes     | 863                      | 750          |
| Audit and consulting services | 60                       | 59           |
| Services                      | 71                       | 35           |
| Bank fees and commissions     | 33                       | 17           |
| Repair and maintenance        | 23                       | 15           |
| Materials                     | 28                       | 15           |
| Other                         | 117                      | 129          |
| <b>Total</b>                  | <b>1,195</b>             | <b>1,020</b> |

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 10 OTHER INCOME (EXPENSES), NET

| mln RUB                                           | Six months ended 30 June |             |
|---------------------------------------------------|--------------------------|-------------|
|                                                   | 2012                     | 2011        |
| <b>Other income</b>                               |                          |             |
| Gain on disposal of property, plant and equipment | 27                       | 57          |
| Gain on disposal of equity accounted investees    | –                        | 23          |
| Fees and penalties received                       | –                        | 2           |
|                                                   | <b>27</b>                | <b>82</b>   |
| <b>Other expenses</b>                             |                          |             |
| Other expenses                                    | (54)                     | (44)        |
| Loss on disposal of subsidiaries                  | –                        | (1)         |
|                                                   | <b>(54)</b>              | <b>(45)</b> |
| <b>Other (expenses)/income, net</b>               | <b>(27)</b>              | <b>37</b>   |

## 11 PERSONNEL COSTS

| mln RUB                             | Six months ended 30 June |              |
|-------------------------------------|--------------------------|--------------|
|                                     | 2012                     | 2011         |
| Wages and salaries                  | 1,576                    | 1,388        |
| Contributions to State pension fund | 367                      | 319          |
|                                     | <b>1,943</b>             | <b>1,707</b> |

During the six months ended 30 June 2012, personnel costs and related taxes included in cost of sales amounted to RUB 932 million (six months ended 30 June 2011: RUB 884 million).

During the six months ended 30 June 2011, a part of wages and salaries attributable to initial public offering were included directly in equity, see note 21.

## 12 FINANCE INCOME AND FINANCE COSTS

| mln RUB                                                | Six months ended 30 June |             |
|--------------------------------------------------------|--------------------------|-------------|
|                                                        | 2012                     | 2011        |
| <b>Recognised in profit or loss</b>                    |                          |             |
| <b>Finance income</b>                                  |                          |             |
| Interest income on bank deposits                       | 239                      | 69          |
| Unwinding of discount on trade receivables             | 83                       | 41          |
| Interest income on loans and receivables               | 12                       | 1           |
| Allowance for doubtful accounts receivable             | 33                       | 4           |
| Gain on write-off of accounts payable                  | –                        | 1           |
| Net foreign exchange gain                              | –                        | 119         |
| Finance income                                         | <b>367</b>               | <b>235</b>  |
| <b>Finance costs</b>                                   |                          |             |
| Net foreign exchange loss                              | (95)                     | –           |
| Interest expense on loans and finance leases           | (1)                      | (20)        |
| Finance costs                                          | <b>(96)</b>              | <b>(20)</b> |
| <b>Net finance income recognised in profit or loss</b> | <b>271</b>               | <b>215</b>  |

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 12 FINANCE INCOME AND FINANCE COSTS CONTINUED

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

| mln RUB                                                  | Six months ended 30 June |        |
|----------------------------------------------------------|--------------------------|--------|
|                                                          | 2012                     | 2011   |
| Borrowing costs capitalised during the period            | 572                      | 533    |
| <b>Weighted average capitalisation rate (annualized)</b> | <b>10.76%</b>            | 12.34% |

During the six months ended 30 June 2012, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 111 million (six months ended 30 June 2011: nil), 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 (six months 2011: 20%).

| mln RUB                                           | Six months ended 30 June |       |
|---------------------------------------------------|--------------------------|-------|
|                                                   | 2012                     | 2011  |
| <b>Current tax expense</b>                        |                          |       |
| Current year                                      | 551                      | 930   |
| (Over-provided)/under-provided in prior year      | (217)                    | 73    |
|                                                   | 334                      | 1,003 |
| <b>Deferred tax expense</b>                       |                          |       |
| Origination and reversal of temporary differences | 100                      | (199) |
| Underprovided in prior year                       | 217                      | –     |
| <b>Income tax expense</b>                         | <b>651</b>               | 804   |

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

| mln RUB                                                                | Six months ended 30 June |       |
|------------------------------------------------------------------------|--------------------------|-------|
|                                                                        | 2012                     | 2011  |
| Profit before tax                                                      | 3,020                    | 3,555 |
| Theoretical income tax at statutory rate of 20%                        | 604                      | 711   |
| <i>Adjustments due to:</i>                                             |                          |       |
| Expenses not deductible and (income not taxable) for tax purposes, net | 47                       | 93    |
| <b>Income tax expense</b>                                              | <b>651</b>               | 804   |

## 14 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, depreciation expense of RUB 193 million (six months ended 30 June 2011: RUB 119 million) has been charged to cost of goods sold, RUB 11 million (six months ended 30 June 2011: RUB 12 million) to cost of real estate properties under construction, RUB 1 million (six months ended 30 June 2011: RUB 1 million) to selling expenses and RUB 15 million (six months ended 30 June 2011: RUB 7 million) to general and administrative expenses.

### (a) Security

At 30 June 2012 properties with a carrying amount of RUB 83 million (31 December 2011: RUB 85 million) are subject to a registered debenture to secure bank loans (see note 23).

### (b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2012 the net book value of leased plant and machinery was RUB 256 million (31 December 2011: RUB 270 million). The leased equipment secures lease obligations.

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 14 PROPERTY, PLANT AND EQUIPMENT CONTINUED

| mln RUB                                   | Buildings and constructions | Machinery and equipment | Vehicles    | Other       | Land      | Construction in progress | Total          |
|-------------------------------------------|-----------------------------|-------------------------|-------------|-------------|-----------|--------------------------|----------------|
| <b>Cost</b>                               |                             |                         |             |             |           |                          |                |
| Balance at 1 January 2011                 | 709                         | 1,498                   | 71          | 100         | 12        | 80                       | <b>2,470</b>   |
| Additions                                 | 81                          | 81                      | 14          | 4           | –         | 65                       | <b>245</b>     |
| Disposals                                 | (47)                        | (51)                    | (10)        | (2)         | –         | (23)                     | <b>(133)</b>   |
| Transfers                                 | 12                          | –                       | –           | –           | –         | (12)                     | <b>–</b>       |
| <b>Balance at 30 June 2011</b>            | <b>755</b>                  | <b>1,528</b>            | <b>75</b>   | <b>102</b>  | <b>12</b> | <b>110</b>               | <b>2,582</b>   |
| Balance at 1 January 2012                 | 1,202                       | 1,599                   | 88          | 104         | 12        | 13                       | <b>3,018</b>   |
| Additions                                 | 45                          | 230                     | 14          | 10          | 12        | 64                       | <b>375</b>     |
| Disposals                                 | (16)                        | (16)                    | (3)         | (3)         | –         | –                        | <b>(38)</b>    |
| Transfers                                 | 6                           | –                       | –           | –           | –         | (6)                      | <b>–</b>       |
| <b>Balance at 30 June 2012</b>            | <b>1,237</b>                | <b>1,813</b>            | <b>99</b>   | <b>111</b>  | <b>24</b> | <b>71</b>                | <b>3,355</b>   |
| <b>Depreciation and impairment losses</b> |                             |                         |             |             |           |                          |                |
| Balance at 1 January 2011                 | (170)                       | (534)                   | (36)        | (70)        | –         | –                        | <b>(810)</b>   |
| Depreciation for the period               | (30)                        | (96)                    | (6)         | (7)         | –         | –                        | <b>(139)</b>   |
| Disposals                                 | 22                          | 32                      | 7           | 2           | –         | –                        | <b>63</b>      |
| <b>Balance at 30 June 2011</b>            | <b>(178)</b>                | <b>(598)</b>            | <b>(35)</b> | <b>(75)</b> | <b>–</b>  | <b>–</b>                 | <b>(886)</b>   |
| Balance at 1 January 2012                 | (201)                       | (698)                   | (33)        | (77)        | –         | –                        | <b>(1,009)</b> |
| Depreciation for the period               | (59)                        | (147)                   | (7)         | (7)         | –         | –                        | <b>(220)</b>   |
| Disposals                                 | 9                           | 12                      | 2           | 3           | –         | –                        | <b>26</b>      |
| <b>Balance at 30 June 2012</b>            | <b>(251)</b>                | <b>(833)</b>            | <b>(38)</b> | <b>(81)</b> | <b>–</b>  | <b>–</b>                 | <b>(1,203)</b> |
| <b>Carrying amounts</b>                   |                             |                         |             |             |           |                          |                |
| At 1 January 2011                         | 539                         | 964                     | 35          | 30          | 12        | 80                       | <b>1,660</b>   |
| At 30 June 2011                           | 577                         | 930                     | 40          | 27          | 12        | 110                      | <b>1,696</b>   |
| At 1 January 2012                         | 1,001                       | 901                     | 55          | 27          | 12        | 13                       | <b>2,009</b>   |
| <b>At 30 June 2012</b>                    | <b>986</b>                  | <b>980</b>              | <b>61</b>   | <b>30</b>   | <b>24</b> | <b>71</b>                | <b>2,152</b>   |

## 15 OTHER LONG-TERM INVESTMENTS

| mln RUB                  | 30 June 2012 | 31 Dec 2011 |
|--------------------------|--------------|-------------|
| Loans, at amortised cost | <b>47</b>    | 67          |
| Other                    | <b>1</b>     | 21          |
|                          | <b>48</b>    | 88          |

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 16 DEFERRED TAX ASSETS AND LIABILITIES

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| mln RUB                             | Assets       |             | Liabilities  |             | Net          |             |
|-------------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|
|                                     | 30 June 2012 | 31 Dec 2011 | 30 June 2012 | 31 Dec 2011 | 30 June 2012 | 31 Dec 2011 |
| Property, plant and equipment       | 72           | 115         | (160)        | (172)       | (88)         | (57)        |
| Investments                         | 11           | 11          | –            | –           | 11           | 11          |
| Inventories                         | 262          | 714         | (284)        | (28)        | (22)         | 686         |
| Trade and other receivables         | 75           | 110         | (1,213)      | (499)       | (1,138)      | (389)       |
| Deferred expenses                   | 230          | 180         | –            | (118)       | 230          | 62          |
| Loans and borrowings                | 13           | 13          | (10)         | (13)        | 3            | –           |
| Provisions                          | 246          | 147         | (1)          | (23)        | 245          | 124         |
| Trade and other payables            | 1,019        | 336         | (160)        | (345)       | 859          | (9)         |
| Tax loss carry-forwards             | 107          | 95          | –            | –           | 107          | 95          |
| Other                               | 69           | 68          | (12)         | (10)        | 57           | 58          |
| Tax assets/(liabilities)            | 2,104        | 1,789       | (1,840)      | (1,208)     | 264          | 581         |
| Set off of tax                      | (1,568)      | (1,110)     | 1,568        | 1,110       | –            | –           |
| <b>Net tax assets/(liabilities)</b> | <b>536</b>   | <b>679</b>  | <b>(272)</b> | <b>(98)</b> | <b>264</b>   | <b>581</b>  |

### (b) Unrecognised deferred tax liability

At 30 June 2012 a deferred tax liability of RUB 929 million (31 December 2011: RUB 829 million) arising on temporary differences of RUB 18,584 million (31 December 2011: RUB 16,580 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

### (c) Movement in temporary differences during the year

| mln RUB                       | 1 January 2012 | Recognised in profit or loss | Disposed of | 30 June 2012 |
|-------------------------------|----------------|------------------------------|-------------|--------------|
| Property, plant and equipment | (57)           | (31)                         | –           | (88)         |
| Investments                   | 11             | –                            | –           | 11           |
| Inventories                   | 686            | (708)                        | –           | (22)         |
| Trade and other receivables   | (389)          | (749)                        | –           | (1,138)      |
| Deferred expenses             | 62             | 168                          | –           | 230          |
| Loans and borrowings          | –              | 3                            | –           | 3            |
| Provisions                    | 124            | 121                          | –           | 245          |
| Trade and other payables      | (9)            | 868                          | –           | 859          |
| Tax loss carry-forwards       | 95             | 12                           | –           | 107          |
| Other                         | 58             | (1)                          | –           | 57           |
|                               | <b>581</b>     | <b>(317)</b>                 | <b>–</b>    | <b>264</b>   |

| mln RUB                       | 1 January 2011 | Recognised in profit or loss | Disposed of | 30 June 2012 |
|-------------------------------|----------------|------------------------------|-------------|--------------|
| Property, plant and equipment | (51)           | (56)                         | –           | (107)        |
| Investments                   | 20             | (9)                          | –           | 11           |
| Inventories                   | 1,475          | 48                           | –           | 1,523        |
| Trade and other receivables   | (292)          | 19                           | –           | (273)        |
| Deferred expenses             | 9              | (10)                         | –           | (1)          |
| Loans and borrowings          | (5)            | 6                            | –           | 1            |
| Provisions                    | (23)           | 172                          | –           | 149          |
| Trade and other payables      | (1,199)        | 170                          | –           | (1,029)      |
| Tax loss carry-forwards       | 94             | 3                            | (2)         | 95           |
| Other                         | 195            | (144)                        | –           | 51           |
|                               | <b>223</b>     | <b>199</b>                   | <b>(2)</b>  | <b>420</b>   |

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 17 INVENTORIES

| mln RUB                                              | 30 June<br>2012 | 31 Dec<br>2011 |
|------------------------------------------------------|-----------------|----------------|
| Own flats under construction                         | 17,655          | 14,610         |
| Own flats                                            | 6,737           | 7,488          |
| Built-in and stand-alone premises under construction | 6,780           | 6,682          |
| Built-in premises                                    | 3,021           | 2,840          |
| Construction materials                               | 464             | 473            |
| Other                                                | 98              | 97             |
|                                                      | 34,755          | 32,190         |
| Less: Allowance for obsolete inventory               | (142)           | (143)          |
| <b>Total</b>                                         | <b>34,613</b>   | <b>32,047</b>  |

During the year ended 31 December 2010, the Group acquired rights on the certain land plot with the total value of RUB 473 million, of which RUB 105 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 30 June 2012, the construction permit has not been received.

The following is movement in the allowance for obsolete inventory:

| mln RUB                                    | 30 June<br>2012 | 31 Dec<br>2011 |
|--------------------------------------------|-----------------|----------------|
| Balance at the beginning of the period     | 143             | 919            |
| Change in allowance for obsolete inventory | (1)             | (776)          |
| <b>Balance at end of the period</b>        | <b>142</b>      | <b>143</b>     |

The amount of allowance of RUB 137 million out of RUB 142 million relates to one item of stand-alone commercial property (31 December 2011: RUB 137 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 30 June 2012 the gross value of the property item equals to RUB 933 million (31 December 2011: RUB 900 million).

The Group has temporarily rented out part of certain items of property classified as inventory in these consolidated interim financial statements. The total carrying value of these items of property was RUB 1,339 million as at 30 June 2012 (31 December 2011: RUB 1,514 million). The Group is actively seeking a buyer for these properties.

Inventories with a carrying amount of RUB 1,336 million (31 December 2011: RUB 468 million) are pledged as security for borrowings, see note 23.

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 18 TRADE AND OTHER RECEIVABLES

| mIn RUB                                          | 30 June<br>2012 | 31 Dec<br>2011 |
|--------------------------------------------------|-----------------|----------------|
| <b>Long-term</b>                                 |                 |                |
| Trade receivables                                | 469             | 505            |
| Advances paid to suppliers                       | –               | 43             |
| Other receivables                                | 3               | 3              |
|                                                  | <b>472</b>      | <b>551</b>     |
| <b>Short-term</b>                                |                 |                |
| Advances paid to suppliers                       | 3,640           | 3,549          |
| VAT recoverable                                  | 1,558           | 868            |
| Trade receivables                                | 2,548           | 2,777          |
| Trade receivables due from related parties       | 6               | 6              |
| Income tax receivable                            | 236             | 72             |
| Unbilled receivables                             | 37              | 9              |
| Other receivables due from related parties       | 1               | 1              |
| Other taxes receivable                           | 6               | 8              |
| Other receivables                                | 288             | 336            |
|                                                  | <b>8,320</b>    | <b>7,626</b>   |
| Less: Allowance for doubtful accounts receivable | (120)           | (153)          |
| <b>Short-term less allowance</b>                 | <b>8,200</b>    | <b>7,473</b>   |
| <b>Total</b>                                     | <b>8,672</b>    | <b>8,024</b>   |

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

| mIn RUB                       | 30 June<br>2012 | 31 Dec<br>2011 |
|-------------------------------|-----------------|----------------|
| Bank deposits (over 3 months) | 2,982           | 1,284          |
| Other                         | 50              | 43             |
|                               | <b>3,032</b>    | <b>1,327</b>   |

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

## 20 CASH AND CASH EQUIVALENTS

| mIn RUB                                                          | 30 June<br>2012 | 31 Dec<br>2011 |
|------------------------------------------------------------------|-----------------|----------------|
| Cash in banks, in USD                                            | 7,313           | 9,644          |
| Cash in banks, in RUB                                            | 1,564           | 643            |
| Cash in banks, in EUR                                            | 229             | 294            |
| Cash in transit                                                  | 74              | 11             |
| Petty cash                                                       | 9               | 2              |
| Short-term deposits (less than 3 months)                         | 4,087           | 3,890          |
| Cash and cash equivalents in the statement of financial position | <b>13,276</b>   | <b>14,484</b>  |
| Cash and cash equivalents in the statement of cash flows         | <b>13,276</b>   | <b>14,484</b>  |

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.



# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 21 CAPITAL AND RESERVES

### (a) Share capital

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

| Number of shares unless otherwise stated     | Ordinary shares    |                    |
|----------------------------------------------|--------------------|--------------------|
|                                              | 30 June<br>2012    | 31 Dec<br>2011     |
| Authorised shares                            |                    |                    |
| Par value at beginning of period             | 0.00005 GBP        | 0.01 GBP           |
| On issue at beginning of period              | 292,119,971        | 1,117,647          |
| Issued as a result of 1:200 share split      | –                  | 222,411,753        |
| Par value at end of period                   | 0.00005 GBP        | 0.00005 GBP        |
| New shares issued during the period          | –                  | 71,428,571         |
| Own shares acquired                          | (90,000)           | (2,838,000)        |
| <b>On issue at end of period, fully paid</b> | <b>292,029,971</b> | <b>292,119,971</b> |

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 Depository Receipts (GDR's) representing ordinary shares of the Company of up to 9.25% of the Company's issued share capital. As at 30 June 2012, the Group has acquired 2,928,000 own shares or 1% of issued share capital (as at 31 December 2011: 2,838,000 own shares or 1% of issued share capital) for the consideration of RUB 472 million (as at 31 December 2011: RUB 459 million).

### (b) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 30 June 2012, the total of subsidiaries' retained earnings, including the profits for the current period were RUB 18,421 million (31 December 2011: RUB 16,386 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 period, as shown below. The Company has no dilutive potential ordinary shares.

| Number of shares unless otherwise stated                           | 2012        | 2011        |
|--------------------------------------------------------------------|-------------|-------------|
| Issued shares at 1 January                                         | 292,119,971 | 223,529,400 |
| Effect of shares issued for cash in April                          | –           | 28,018,942  |
| Effect of own shares acquired in January                           | (87,495)    | –           |
| Weighted average number of shares for the six months ended 30 June | 292,032,476 | 251,548,342 |
| Profit attributable to the owners of the Company, mIn RUB          | 2,342       | 2,723       |
| Basic and diluted earnings per share (RUB)                         | 8.02        | 10.82       |

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 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                                  | 30 June<br>2012 | 31 Dec<br>2011 |
|------------------------------------------|-----------------|----------------|
| <b>Non-current liabilities</b>           |                 |                |
| Secured bank loans                       | 2,165           | 1,443          |
| Unsecured bank loans                     | 5,301           | 6,405          |
| Unsecured bond issues                    | –               | 608            |
|                                          | <b>7,466</b>    | <b>8,456</b>   |
| <b>Current liabilities</b>               |                 |                |
| Current portion of secured bank loans    | 265             | 15             |
| Current portion of unsecured bank loans  | 1,593           | 223            |
| Current portion of unsecured bond issues | 1,517           | 1,712          |
|                                          | <b>3,375</b>    | <b>1,950</b>   |

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| mln RUB                      | Currency | Nominal interest rate | Year of maturity | 30 June 2012  |                 | 31 December 2011 |                 |
|------------------------------|----------|-----------------------|------------------|---------------|-----------------|------------------|-----------------|
|                              |          |                       |                  | Face value    | Carrying amount | Face value       | Carrying amount |
| <b>Secured bank loans</b>    |          |                       |                  | <b>2,430</b>  | <b>2,430</b>    | 1,458            | 1,458           |
| Secured bank loan            | EUR      | EURIBOR+7.00 %        | 2014             | 1,390         | 1,390           | 1,242            | 1,242           |
| Secured bank loan            | EUR      | EURIBOR+7.09 %        | 2015             | 504           | 504             | 216              | 216             |
| Secured bank loan            | RUB      | 12.00 %               | 2014             | 536           | 536             | –                | –               |
| <b>Unsecured bank loans</b>  |          |                       |                  | <b>6,932</b>  | <b>6,894</b>    | 6,673            | 6,628           |
| Unsecured bank loan          | USD      | LIBOR+6.50 %          | 2014             | 419           | 419             | 469              | 469             |
| Unsecured bank loan          | RUB      | 9.50 %                | 2015             | 1,253         | 1,253           | 1,250            | 1,250           |
| Unsecured bank loan          | USD      | LIBOR+6.5 %           | 2015             | 656           | 656             | 644              | 644             |
| Unsecured bank loan          | USD      | 9.75 %                | 2015             | 4,374         | 4,336           | 4,290            | 4,245           |
| Unsecured bank loan          | RUB      | 14.00 %               | 2012             | 230           | 230             | –                | –               |
| Unsecured bank loan          | RUB      | 14.00 %               | 2012             | –             | –               | 20               | 20              |
| <b>Unsecured bond issues</b> |          |                       |                  | <b>1,521</b>  | <b>1,517</b>    | 2,329            | 2,320           |
| Unsecured bonds              | RUB      | 16.00 %               | 2012             | 405           | 403             | 807              | 803             |
| Unsecured bonds              | RUB      | 14.50 %               | 2013             | 1,116         | 1,114           | 1,522            | 1,517           |
|                              |          |                       |                  | <b>10,883</b> | <b>10,841</b>   | 10,460           | 10,406          |

Bank loans are secured by:

- buildings with a carrying amount of RUB 83 million, see note 14.
- inventory with a carrying amount of RUB 1,336 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.

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 24 PROVISIONS

| mln RUB                           | Warranties | Provision for deferred works | Total        |
|-----------------------------------|------------|------------------------------|--------------|
| Balance at 1 January 2011         | 81         | 1,189                        | 1,270        |
| Provisions made during the period | –          | 480                          | 480          |
| Provisions used during the period | (6)        | (624)                        | (630)        |
| Balance at 30 June 2011           | 75         | 1,045                        | 1,120        |
| Balance at 1 January 2012         | 77         | 1,560                        | 1,637        |
| Provisions made during the period | 6          | 349                          | 355          |
| Provisions used during the period | (22)       | (743)                        | (765)        |
| <b>Balance at 30 June 2012</b>    | <b>61</b>  | <b>1,166</b>                 | <b>1,227</b> |
| Non-current                       | 61         | –                            | 61           |
| Current                           | –          | 1,166                        | 1,166        |
|                                   | <b>61</b>  | <b>1,166</b>                 | <b>1,227</b> |

### (a) Warranties

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

### (b) Provision for deferred works

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

## 25 TRADE AND OTHER PAYABLES

| mln RUB                              | 30 June 2012  | 31 Dec 2011   |
|--------------------------------------|---------------|---------------|
| <b>Long-term</b>                     |               |               |
| Advances from customers              | 3             | 2             |
| Finance lease liabilities            | 1             | 3             |
| Trade payables                       | 16            | 32            |
| Other payables                       | 10            | 11            |
|                                      | <b>30</b>     | <b>48</b>     |
| <b>Short-term</b>                    |               |               |
| Advances from customers              | 9,244         | 8,731         |
| Trade payables                       | 2,451         | 2,271         |
| Billings in excess of work completed | 155           | 117           |
| Payroll liabilities                  | 225           | 242           |
| Income tax payable                   | 10            | 447           |
| VAT payable                          | 1,740         | 1,140         |
| Finance lease liabilities            | 18            | 55            |
| Other taxes payable                  | 124           | 86            |
| Other payables                       | 603           | 450           |
|                                      | <b>14,570</b> | <b>13,539</b> |
| <b>Total</b>                         | <b>14,600</b> | <b>13,587</b> |

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 30 June 2012 (31 December 2011: RUB 785 million), is recognised within trade payables.

Advances from customers are represented by prepayments for housing and commercial properties made under sales contracts. In case customers cancel sales contracts, advances received by the Group are repaid within 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.

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 25 TRADE AND OTHER PAYABLES CONTINUED

Finance lease liabilities are payable as follows:

| mln RUB                    | 30 June 2012                  |          |                                         | 31 December 2011              |          |                                         |
|----------------------------|-------------------------------|----------|-----------------------------------------|-------------------------------|----------|-----------------------------------------|
|                            | 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         | 19                            | 1        | 18                                      | 56                            | 1        | 55                                      |
| Between one and five years | 1                             | –        | 1                                       | 3                             | –        | 3                                       |
|                            | 20                            | 1        | 19                                      | 59                            | 1        | 58                                      |

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

| mln RUB | Currency | Nominal interest rate | Year of maturity | 30 June 2012 |                 | 31 December 2011 |                 |
|---------|----------|-----------------------|------------------|--------------|-----------------|------------------|-----------------|
|         |          |                       |                  | Face value   | Carrying amount | Face value       | Carrying amount |
|         | EUR      | 8.79 – 9.77 %         | 2012             | 16           | 16              | 54               | 54              |
|         | RUB      | 17.71 %; 24.27 %      | 2012 – 2015      | 3            | 3               | 4                | 4               |
|         |          |                       |                  | 19           | 19              | 58               | 58              |

## 26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### (a) Overview

The Group's financial instruments as at 30 June 2012, 31 December 2011 are categorized as follows:

| mln RUB                                                                           | 30 June 2012 | 31 Dec 2011 |
|-----------------------------------------------------------------------------------|--------------|-------------|
| <b>Financial assets at amortized cost</b>                                         |              |             |
| Loans and receivables (excluding taxes receivable and advances paid to suppliers) | 6,311        | 4,878       |
| Cash and cash equivalents                                                         | 13,276       | 14,484      |
|                                                                                   | 19,587       | 19,362      |
| <b>Financial liabilities at amortized cost</b>                                    | 23,567       | 22,320      |

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

- credit risk
- liquidity risk
- market risk

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

### (i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

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

### (ii) Guarantees

As at 30 June 2012 the Group had not provided any financial guarantees to entities outside the Group (31 December 2011: nil).

### (iii) Exposure to credit risk

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

| mln RUB                                                                           | Carrying amount |             |
|-----------------------------------------------------------------------------------|-----------------|-------------|
|                                                                                   | 30 June 2012    | 31 Dec 2011 |
| Loans and receivables (excluding taxes receivable and advances paid to suppliers) | 6,311           | 4,878       |
| Cash and cash equivalents                                                         | 13,276          | 14,484      |
|                                                                                   | 19,587          | 19,362      |

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

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

### Impairment losses

The aging of trade receivables at the reporting date was:

| mln RUB                     | 30 June 2012 |            | 31 Dec 2011 |            |
|-----------------------------|--------------|------------|-------------|------------|
|                             | Gross        | Impairment | Gross       | Impairment |
| Not past due                | 2,346        | –          | 3,105       | –          |
| Past due 0-30 days          | 154          | –          | 58          | –          |
| Past due 31-120 days        | 199          | –          | 65          | –          |
| Past due more than 120 days | 325          | (47)       | 60          | (60)       |
|                             | 3,024        | (47)       | 3,288       | (60)       |

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

| mln RUB                  | 2012 | 2011 |
|--------------------------|------|------|
| Balance at 1 January     | 72   | 33   |
| Increase during the year | 1    | 15   |
| Write-offs               | (1)  | (1)  |
| Decrease due to reversal | (25) | (7)  |
| Balance at 30 June       | 47   | 40   |

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

| mln RUB                  | 2012 | 2011 |
|--------------------------|------|------|
| Balance at 1 January     | 81   | 89   |
| Increase during the year | 1    | 6    |
| Write-offs               | –    | (2)  |
| Decrease due to reversal | (9)  | (18) |
| Balance at 30 June       | 73   | 75   |

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

### (c) Liquidity risk

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

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

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

Contractual maturities of financial liabilities were as follows:

| mIn RUB                                            | Carrying amount | Contractual cash flows | 0-6 mths      | 6-12 mths    | 1-2 yrs      | 2-3 yrs      | 3-4 yrs    | 4-5 yrs  | Over 5 yrs |
|----------------------------------------------------|-----------------|------------------------|---------------|--------------|--------------|--------------|------------|----------|------------|
| <b>30 June 2012</b>                                |                 |                        |               |              |              |              |            |          |            |
| <b>Non-derivative financial liabilities</b>        |                 |                        |               |              |              |              |            |          |            |
| Secured bank loans                                 | 2,430           | 2,752                  | 260           | 334          | 1,298        | 728          | 132        | –        | –          |
| Unsecured bank loans                               | 6,894           | 7,373                  | 623           | 1,320        | 2,390        | 2,586        | 454        | –        | –          |
| Unsecured bond issues                              | 1,517           | 1,654                  | 1,011         | 643          | –            | –            | –          | –        | –          |
| Finance lease liabilities                          | 19              | 20                     | 18            | 1            | 1            | –            | –          | –        | –          |
| Trade and other payables (excluding taxes payable) | 12,707          | 12,707                 | 11,056        | 1,268        | 294          | 88           | –          | –        | 1          |
|                                                    | <b>23,567</b>   | <b>24,506</b>          | <b>12,968</b> | <b>3,566</b> | <b>3,983</b> | <b>3,402</b> | <b>586</b> | <b>–</b> | <b>1</b>   |

| mIn RUB                                            | Carrying amount | Contractual cash flows | 0-6 mths     | 6-12 mths    | 1-2 yrs      | 2-3 yrs      | 3-4 yrs      | 4-5 yrs   | Over 5 yrs |
|----------------------------------------------------|-----------------|------------------------|--------------|--------------|--------------|--------------|--------------|-----------|------------|
| <b>31 December 2011</b>                            |                 |                        |              |              |              |              |              |           |            |
| <b>Non-derivative financial liabilities</b>        |                 |                        |              |              |              |              |              |           |            |
| Secured bank loans                                 | 1,458           | 1,627                  | 359          | 43           | 681          | 430          | 114          | –         | –          |
| Unsecured bank loans                               | 6,628           | 8,160                  | 379          | 403          | 2,555        | 2,734        | 2,089        | –         | –          |
| Unsecured bond issues                              | 2,320           | 2,627                  | 972          | 1,012        | 643          | –            | –            | –         | –          |
| Finance lease liabilities                          | 58              | 59                     | 40           | 16           | 2            | 1            | –            | –         | –          |
| Trade and other payables (excluding taxes payable) | 11,856          | 11,856                 | 7,721        | 1,168        | 2,884        | 33           | 23           | 20        | 7          |
|                                                    | <b>22,320</b>   | <b>24,329</b>          | <b>9,471</b> | <b>2,642</b> | <b>6,765</b> | <b>3,198</b> | <b>2,226</b> | <b>20</b> | <b>7</b>   |

### (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:

| mIn RUB                   | 30 June 2012    |                  | 31 December 2011 |                 |
|---------------------------|-----------------|------------------|------------------|-----------------|
|                           | USD-denominated | Euro-denominated | USD-denominated  | EUR-denominated |
| Cash and cash equivalents | <b>7,313</b>    | <b>229</b>       | 9,644            | 294             |
| Loans and borrowings      | <b>(5,411)</b>  | <b>(1,894)</b>   | (5,358)          | (1,458)         |
| Finance lease liabilities | –               | <b>(16)</b>      | –                | (54)            |
| <b>Net exposure</b>       | <b>1,902</b>    | <b>(1,681)</b>   | 4,286            | (1,218)         |

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

The following significant exchange rates applied during the year:

| min RUB | Average rate   |              | Reporting date spot rate |             |
|---------|----------------|--------------|--------------------------|-------------|
|         | 6 months ended |              | 6 months ended           |             |
|         | 30 June 2012   | 30 June 2011 | 30 June 2012             | 31 Dec 2011 |
| USD 1   | 30.57          | 28.56        | 32.82                    | 32.20       |
| EUR 1   | 39.63          | 40.14        | 41.32                    | 41.67       |
| GBP 1   | 48.20          | 46.22        | 51.36                    | 49.63       |

### Sensitivity analysis

A weakening of the RUB, as indicated below, against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

| mln RUB                              | Equity | Profit or loss |
|--------------------------------------|--------|----------------|
| <b>Six months ended 30 June 2012</b> |        |                |
| USD (10% strengthening)              | 190    | 190            |
| EUR (10% strengthening)              | (168)  | (168)          |
|                                      | 22     | 22             |
| <b>Six months ended 30 June 2011</b> |        |                |
| USD (10% strengthening)              | 920    | 920            |
| EUR (10% strengthening)              | (61)   | (61)           |
|                                      | 859    | 859            |

A strengthening of the RUB against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (ii) Interest rate risk

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

### Profile

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

| mln RUB                          | Carrying amount |             |
|----------------------------------|-----------------|-------------|
|                                  | 30 June 2012    | 31 Dec 2011 |
| <b>Fixed rate instruments</b>    |                 |             |
| Financial assets                 | 16,774          | 15,056      |
| Financial liabilities            | (7,891)         | (7,893)     |
|                                  | 8,883           | 7,163       |
| <b>Variable rate instruments</b> |                 |             |
| Financial liabilities            | (2,969)         | (2,571)     |
|                                  | (2,969)         | (2,571)     |

### Fair value sensitivity analysis for fixed rate instruments

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

### Cash flow sensitivity analysis for variable rate instruments

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

| mln RUB                              | Profit or loss  |                 | Equity          |                 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                      | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| <b>Six months ended 30 June 2012</b> |                 |                 |                 |                 |
| Variable rate instruments            | (30)            | 30              | (30)            | 30              |
| Cash flow sensitivity (net)          | (30)            | 30              | (30)            | 30              |
| <b>Six months ended 30 June 2011</b> |                 |                 |                 |                 |
| Variable rate instruments            | (12)            | 12              | (12)            | 12              |
| Cash flow sensitivity (net)          | (12)            | 12              | (12)            | 12              |

### (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                             | 30 June 2012  | 31 Dec 2011 |
|-------------------------------------|---------------|-------------|
| <b>Total borrowings</b>             | <b>10,841</b> | 10,406      |
| Less: cash and cash equivalents     | (13,276)      | (14,484)    |
| Net debt                            | (2,435)       | (4,078)     |
| <b>Total equity</b>                 | <b>35,412</b> | 33,056      |
| Debt to capital ratio at period end | (0.07)        | (0.12)      |

Finance lease liabilities (RUB 19 million at 30 June 2012, RUB 58 million at 31 December 2011) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

## 27 OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

| mln RUB                    | 30 June 2012 | 31 Dec 2011 |
|----------------------------|--------------|-------------|
| Less than one year         | 49           | 105         |
| Between one and five years | 82           | 154         |
| More than five years       | 199          | 110         |
|                            | <b>330</b>   | 369         |

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

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

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

During the six months ended 30 June 2012 an amount of RUB 20 million (six months ended 30 June 2011: RUB 35 million) was recognized as an expense in the consolidated interim statement of comprehensive income in respect of operating leases, while RUB 6 million (six months ended 30 June 2011: RUB 25 million) were capitalized into the cost of residential and commercial premises under construction.



# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 28 CAPITAL COMMITMENTS

As at 30 June 2012 the Group does not have any capital commitments (31 December 2011: nil).

## 29 CONTINGENCIES

### (a) Insurance

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

### (b) Litigation

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

### (c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized 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 interim 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 period, which is included in personnel costs (see note 11):

| mln RUB              | Six months ended 30 June |      |
|----------------------|--------------------------|------|
|                      | 2012                     | 2011 |
| Salaries and bonuses | 126                      | 110  |
|                      | 126                      | 110  |

#### (ii) Other transactions

Sales to key management personnel are disclosed below:

| mln RUB                         | Transaction value        |      | Outstanding balance |        |
|---------------------------------|--------------------------|------|---------------------|--------|
|                                 | Six months ended 30 June | 2011 | 30 June             | 31 Dec |
|                                 | 2012                     | 2011 | 2012                | 2011   |
| Sale of apartments and premises | 89                       | 17   | –                   | –      |
|                                 | 89                       | 17   | –                   | –      |

### (b) Transactions with other related parties

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

#### (i) Revenue

| mln RUB               | Transaction value        |      | Outstanding balance |        |
|-----------------------|--------------------------|------|---------------------|--------|
|                       | Six months ended 30 June | 2011 | 30 June             | 31 Dec |
|                       | 2012                     | 2011 | 2012                | 2011   |
| Other related parties | 43                       | 21   | 7                   | 7      |
|                       | 43                       | 21   | 7                   | 7      |

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

# Notes to the Consolidated Interim Financial Statements continued

For the Six Months Ended 30 June 2012

## 30 RELATED PARTY TRANSACTIONS CONTINUED

### (ii) Expenses

| mln RUB                    | Transaction value             |      | Outstanding balance |             |
|----------------------------|-------------------------------|------|---------------------|-------------|
|                            | Six months ended 30 June 2012 | 2011 | 30 June 2012        | 31 Dec 2011 |
| Other related parties      | 14                            | 2    | 11                  | 8           |
| Equity accounted investees | –                             | 1    | –                   | –           |
|                            | 14                            | 3    | 11                  | 8           |

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

### (iii) Loans

| mln RUB                | Amount loaned                 |      | Outstanding balance |             |
|------------------------|-------------------------------|------|---------------------|-------------|
|                        | Six months ended 30 June 2012 | 2011 | 30 June 2012        | 31 Dec 2011 |
| <b>Loans given:</b>    |                               |      |                     |             |
| Other related parties  | 3                             | 3    | 1                   | 2           |
| <b>Loans received:</b> |                               |      |                     |             |
| Other related parties  | 1                             | 1    | (1)                 | (1)         |
|                        | 4                             | 4    | –                   | 1           |

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

## 31 GROUP ENTITIES

### Significant subsidiaries

| Subsidiary                         | Country of incorporation | 30 June 2012 | 31 December 2011 |
|------------------------------------|--------------------------|--------------|------------------|
| CJSC “UK Etalon”                   | Russian Federation       | 100.00%      | 100.00 %         |
| CJSC “SSMO LenSpetsSMU”            | Russian Federation       | 100.00%      | 100.00 %         |
| CJSC “Zatonskoe”                   | Russian Federation       | 99.80%       | 99.80 %          |
| CJSC “TSUN LenSpetsSMU”            | Russian Federation       | 100.00%      | 100.00 %         |
| CJSC “Aktiv”                       | Russian Federation       | 100.00%      | 100.00 %         |
| CJSC “Novator”                     | Russian Federation       | 90.00%       | 90.00 %          |
| CJSC “LenSpetsSMU-Rekonstruktsiya” | Russian Federation       | 80.00%       | 80.00 %          |

As of 30 June 2012 the Group controlled 99 legal entities (31 December 2011: 88), including SPE described in note 3(a)(iv). Their assets, liabilities, revenues and expenses have been included in these consolidated interim 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 30 June 2012 for the total amount of RUB 115 million.

Subsequent to the reporting date the Group has obtained new loans for the total amount of RUB 1,458 million including additional tranche of a loan for the total amount of RUB 180 million with the interest rate of LIBOR+6.5% (repayable at 2015), a new loan for the total amount of RUB 301 million with the interest rate of EURIBOR+3.2% (repayable at 2017), a new loan in the amount of RUB 250 million with the interest rate of 11.5% and a new loan amounting to RUB 727 million with the interest rate of 12% (both repayable at 2015).



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