Original in Russian language

CJSC SSMO "LenSpetsSMU"

Separate financial statements

For the year ended 31 of December, 2012
including independent auditor's report

Contents

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Independent auditor's report

To the shareholders of CJSC SSMO "LenSpetsSMU".

We have audited the accompanying separate financial statements of CJSC SSMO "LenSpetsSMU", which comprise the separate statement of financial position as at December 31, 2012, and the separate statement of comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects the financial position of CJSC SSMO "LenSpetsSMU" as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

General Director D. Vinokurov

Moscow, Russian Federation
April, 22 2013

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	Notes	At December 31, 2012 '000 RR	At December 31, 2011 '000 RR
ASSETS			
Non-current assets			
Property, plant and equipment	5	157 685	43 822
Investment property	6	174	183
Intangible assets	7	862	320
Long-term financial investments	8	3 266 645	3 288 201
Accounts receivable and prepayments	12	16 851	1 832
		3 442 217	**3 334 358**
Current assets			
Inventories	10	19 542 770	20 865 966
Short-term investments	11	8 978 302	4 071 248
Accounts receivable and prepayments	12	13 292 182	7 617 532
Corporate income tax receivable		208 543	43
Other current assets	13	32 180	22 447
Cash and cash equivalents	14	4 391 038	2 743 089
		46 445 015	**35 320 325**
Total assets		**49 887 232**	**38 654 683**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	2 101 237	2 101 237
Retained earnings		17 227 266	12 342 059
		19 328 503	**14 443 296**
Non-current liabilities			
Loans and borrowings	15	11 772 018	8 940 205
Accounts payable and other liabilities	16	109	5 476
Deferred tax liabilities	9	188 905	29 030
		11 961 032	**8 974 711**
Current liabilities			
Loans and borrowings	15	3 315 852	1 948 910
Advances received on primary activity	16	11 236 400	8 908 436
Accounts payable and other liabilities	16	3 488 476	3 448 822
Provisions	17	549 341	914 441
Income tax payable		7 628	16 067
		18 597 697	**15 236 676**
Total equity and liabilities		**49 887 232**	**38 654 683**

The accompanying notes are an integral part of these separate financial statements.

General director Scherbina G.Ph.

Chief accountant Ushakova E. V.

April 22, 2013

	Notes	2012 '000 RR	2011 '000 RR
Revenue	19	22 320 299	15 774 663
Cost of sales	20	(15 173 035)	(10 129 464)
Gross profit		**7 147 264**	**5 645 199**
Selling expenses	22	(121 863)	(27 212)
General and administrative expenses	22	(964 287)	(753 027)
Taxes, other than income tax		(126 111)	(78 895)
Other operating income and expenses	23	(432 169)	(31 459)
Operating profit		**5 502 834**	**4 754 606**
Finance income and expenses	24	716 810	(739 669)
Profit before income tax		**6 219 644**	**4 014 937**
Income tax expense	9	(1 334 437)	(843 791)
Net profit for the year		**4 885 207**	**3 171 146**
Total comprehensive income for the year		**4 885 207**	**3 171 146**
Basic and diluted earnings per share	18	0,47	9,99

The accompanying notes are an integral part of these separate financial statements.

General director Scherbina G.Ph.

Chief accountant Ushakova E. V

April 22, 2013

	Share capital	Retained earnings	Total equity
	'000 RR	'000 RR	'000 RR
Balance at January 1, 2011	**1 237**	**9 170 913**	**9 172 150**
Increase in share capital	2 100 000	-	**2 100 000**
Net profit for the year	-	3 171 146	**3 171 146**
Balance at December 31, 2011	**2 101 237**	**12 342 059**	**14 443 296**
Net profit for the year	-	4 885 207	**4 885 207**
Balance at December 31, 2012	**2 101 237**	**17 227 266**	**19 328 503**

The accompanying notes are an integral part of these separate financial statements.

General director Scherbina G.Ph.

Chief accountant Ushakova E. V.

April 22, 2013

	Notes	2012 '000 RR	2011 '000 RR
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6 219 644**	**4 014 937**
Adjustments for:		**(385 159)**	**655 745**
Depreciation and amortization	20,22	11 979	51 904
Profit from disposal of financial assets	23	(46 513)	(11 901)
Profit from disposal of non-current assets	23	(12 730)	(26 465)
Foreign exchange (profit)/loss	24	(332 653)	591 062
Interest expense	24	88 421	218 173
Interest income	24	(460 134)	(58 109)
Provision for bad debts	23	11 610	(54 866)
Provision for impairment of inventories	23	349 354	22 494
Provisions for ongoing court litigations	23	2 440	(60 800)
Provision for impairment of financial investments	23	15 240	(4 290)
Changes in amortized cost of financial assets	24	(12 444)	(11 457)
Other gains and losses		271	-
Operating profit before changes in working capital		**5 834 485**	**4 670 682**
Change in accounts receivable and prepayments		(5 635 193)	(2 705 227)
Change in inventories		1 917 720	(249 718)
Change in accounts payable and advances received		749 824	(549 504)
Change in other assets and liabilities		(9 733)	(21 047)
Cash generated from operations		**2 857 103**	**1 145 186**
Income tax paid		(1 391 513)	(1 646 502)
Net cash from / (used in) operating activities		**1 465 590**	**(501 316)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(83 223)	(314 861)
Proceeds from sale of property, plant and equipment and intangible assets		4	21 085
Net effect from purchase and disposal of financial investments		535 021	936 672
Net effect from disbursement and repayment of bank deposits	11	(4 185 877)	(2 055 000)
Disbursements of loans given		(328 244)	(52 890)
Repayments of loans given		360 504	153 746
Interest received		400 604	45 111
Net cash used in investing activities		**(3 301 211)**	**(1 266 137)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		7 364 762	6 434 105
Repayment of loans and borrowings		(2 809 313)	(5 141 180)
Interest paid		(1 025 100)	(1 087 328)
Contributions to share capital		-	2 100 000
Net cash from financing activities		**3 530 349**	**2 305 597**
Effect of changes in exchange rate on cash and cash equivalents		(46 779)	(99 463)
Net increase in cash and cash equivalents		**1 647 949**	**438 681**
Cash and cash equivalents at the beginning of the year	14	2 743 089	2 304 408
Cash and cash equivalents at the end of the year	14	**4 391 038**	**2 743 089**

The accompanying notes are an integral part of these separate financial statements.

General director Scherbina G.Ph.

Chief accountant Ushakova E. V.

April 22, 2013

1. General information

CJSC SSMO "LenSpetsSMU" (further "the Company") specializes in mass house building under brick and monolith technology in the area of higher comfort and business-class housing.

Currently the Company's share of the total building market of Saint-Petersburg approximates to 11,2%. In 2012 CJSC SSMO "LenSpetsSMU" constructed buildings of total area 287 367 sq. m.

The Company performs the whole cycle of investment and building process – from projecting of real estate to its operation.

CJSC SSMO "LenSpetsSMU" was registered under the Resolution of the Registration chamber of Saint-Petersburg dated 28.12.1995. Last edition of the Company's Charter was registered on 28.03.2012.

The Company is a member of self-regulated organization based on membership of bodies performing building and construction works – Not-for-profit partnership "Association of constructors of Saint Petersburg", registration number CPO-C-003-22042009. The Company holds the following certificates and permissions:

- permission to perform the functions of general subcontractor (№ ГП-112-2009-7802084569-C-3);
- certificate to perform works relating to the safety of capital construction objects (№0112-2009-7802084569-C-3);
- permission to perform the functions of technical supervision (functions of building developer) №33-112-2009-7802084569-C-3.

The Company's main office is located in Saint-Petersburg at the following address: Bogatyrskiy prospect, 2A.

The immediate parent of CJSC SSMO "LenSpetsSMU" is CJSC "Managerial company - Construction holding "Etalon-LenSpetsSMU", registered in the Russian Federation.

2. Basis of preparation

General

Historical cost basis

The separate financial statements have been prepared on the historical cost basis except for financial assets held for trading carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards («IFRS»), and Interpretations, as issued by the International Accounting Standards Board («IASB») and the International Financial Reporting Interpretations Committee (the «IFRIC»).

The Company maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of IFRS.

Adoption of new and revised Standards

In the reporting year, the Company has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2012.

Standards issued but not yet effective

At the reporting date the following standards and interpretations were issued but not yet effective:

Standard/Interpretation	Effective for annual periods
IAS 27 Separate Financial Statements (as revised in 2011)	beginning on or after 1 January 2013
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	beginning on or after 1 January 2013
IFRS 9 Financial Instruments	beginning on or after 1 January 2015
IFRS 10 Consolidated Financial Statements	beginning on or after 1 January 2013
IFRS 11 Joint Arrangements	beginning on or after 1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	beginning on or after 1 January 2013
IFRS 13 Fair Value Measurement	beginning on or after 1 January 2013
Numerous amendments to IAS 19 Employee Benefits	beginning on or after 1 January 2013
Amendments to IAS 32 «Financial Instruments Presentation» – offsetting of financial assets and liabilities	beginning on or after 1 January 2014
Amendments to IFRS 1 «First-time Adoption of IFRS» – government loans	beginning on or after 1 January 2013
Amendments to IFRS 7 «Financial Instruments: Disclosures» - offsetting of financial assets and liabilities	beginning on or after 1 January 2013
Annual improvements to IFRSs, published in May 2012 and affecting the following standards: IAS 1, IFRS 1, IAS 16, IAS 32, IAS 34.	beginning on or after 1 January 2013

Functional and presentation currency

The financial statements of the Company are prepared in the currency of the primary economic environment in which the entity operates - its functional currency. The functional currency of the Company is the national currency of the Russian Federation - the Russian rouble («RR»). Operations in other currencies are recognized as transactions in foreign currencies.

All financial information in the separate financial statements is presented in thousands of Russian roubles ('000 RR).

Going concern

The separate financial statements have been prepared on a going concern basis, which contemplates that the Company has neither intention nor the obligation to cease or significantly curtail its business in the foreseeable future. The recoverability of the Company's assets and its future operations may be significantly affected by the current and future economic environment. The separate financial statements do not include any adjustments should the Company be unable to continue as a going concern.

Use of estimates and judgments

The preparation of the Company's separate financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.
Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the separate 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 19 – revenue recognition;
- Note 10 – inventory obsolescence provisions;
- Note 17 – provisions;
- Note 28 – contingencies.

3. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank accounts and short-term highly liquid bank deposits (maturity less than 3 months) free from any obligations.

Accounts receivable

Accounts receivable arising on principal activities include amounts due from individuals and legal entities for apartments.

Prepayments to subcontractors for work performed under the long-term construction contracts are included into non-current prepayments when the due date for agreed construction work exceeds twelve months after the reporting date.

Accounts receivable are stated at cost less provision for impairment. Non-recoverable receivables are written off directly to other operating expenses in the statement of comprehensive income.

Inventories

For accounting of construction in progress the company CJSC SSMO "LenSpetsSMU" applies IAS 2 "Inventories".

Sales of construction objects are performed through execution of share participation agreements (SPA) with future owners of housing (unit holders) or through executing agreements of preliminary sale (PSA), or through execution of investment agreements with construction cooperatives (IA).

Notwithstanding considerable differences in sale schemes, risks associated with buildings being constructed are transferred to unit holders (buyers) after approval of a building by the State commission. Before approval is obtained housing and premises (including garages) under construction are accounted as Work in process in inventories.

Inventories are valued at the lower of cost and net realizable value.

The cost of inventories comprises all costs of purchase, production costs and other related cost included in cost of finished goods.

Administrative expenses that do not contribute to bringing the inventories to their present condition as well as selling costs are not included in the cost of the inventories.

As the Company's normal operating cycle for a construction project may exceed twelve months inventories are classified as current assets even when they are not expected to be realised within twelve months after the reporting date.

Long-term investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost, less impairment losses.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the settlement date (delivery).

All financial assets are recognised initially at fair value plus transaction costs, except for financial assets measured at fair value through profit or loss, which are recognised at fair value.

The subsequent measurement of financial assets depends on their classification into one of the four categories of financial instruments.

Financial assets held for trading are classified as financial assets at fair value through profit or loss category and are subsequently measured at fair value. Gains and losses arising from net changes in fair value are recognised in the separate statement of comprehensive income. Fair value of securities held for trading is determined from stock exchange quotations at the reporting date.

The Company's loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets, included in Loan and receivables category, are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortisation is included in finance income.

Bank deposits are classified as held-to-maturity investments when the Company has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less impairment. Amortisation is included in finance income.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as available-for-sale financial assets and subsequently measured at cost, less impairment losses.

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation of items in the process of construction and items not brought into use starts when these assets are ready for use. Land is not depreciated. Depreciation is charged to expenses in the statement of comprehensive income on a straight-line basis over the estimated useful lives of Property, plant and equipment, listed below:

	Years
Buildings and constructions	25-30
Machinery and equipmment	3-5
Other	5

Repair and reconstruction costs incurred in respect of Property, plant and equipment are charged to expenses as incurred and presented within other administrative and operating expenses category, provided that these costs are not eligible for capitalization in the cost of respective asset.

Investment property

Investment property comprises items of real estate which are held to earn rentals. Investment property is measured at its cost less any accumulated depreciation and impairment losses. The cost of self-constructed investment property includes cost of materials, labour and other directly related expenses.

Residual value and useful lives are revised and adjusted at each reporting date. When the carrying amount of an asset exceeds its recoverable amount the carrying value is reduced to that recoverable amount. Depreciation charge and impairment loss are recognized in the statement of comprehensive income.

Intangible assets

Intangible assets include software and trademarks. Intangible assets are stated at cost (software costs include cost of bringing the asset into operation) less accumulated amortization and impairment losses.

Intangible assets are amortized using a straight-line method over their estimated useful lives. Amortization expenses are charged to profit or loss. Estimated useful lives of intangibles are listed below:

Software	1-10 years
Trademarks	10 years

Subsequent expenditure related to intangible assets is capitalized only when it increases the future economic benefits embodied in the item and which the Company expects to recover. All other expenditure is recognized as an expense as incurred.

Impairment

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 Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Company 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.

Non-financial assets

The carrying amounts of the Company'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 Company'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.

Advance payments received on principal activities and accounts payable

In accordance with the share participation agreements the Company's customers finance the construction works of the Company by making prepayments. After finishing the construction and obtaining the approval of a building by the state commission and passing the ownership right for the apartments to the respective owners, the Company transfers the amounts to the income statement on item-by-item basis.

Advances received from customers under long-term construction contracts are included into non-current liabilities when the due date for the agreed construction work exceeds twelve months after the reporting date.

Accounts payable are stated at cost.

Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of any transaction costs incurred. Subsequently loans and borrowings are measured at amortized cost using effective interest rate method. Interest on loans and borrowings are charged to profit or loss of the period, except when borrowings are used by the Company to finance construction or acquisition of an item that necessarily takes a substantial period of time to get ready for its intended use, in which case finance costs are capitalized within the cost of that item.

Provisions

A provision is recognised if, as a result of a past event, the Company 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.

Provision for deferred works

The Company records provisions in respect of the its 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.

Share capital

Share capital is stated at historical cost, except for cash contributions received before January 01, 2003 which were adjusted for the effects of inflation. Non-cash contributions are recognized at fair value of contributed assets on the date of contribution.

Dividends

Dividends are recognized as a liability in the period in which they are declared. Dividends declared after the financial statements date are disclosed as the events subsequent to the financial statement date.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except when it relates to items recognized directly to equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences are not provided for nitial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency transactions

Assets and liabilities of Company denominated in foreign currencies were translated into Russian roubles using the official exchange rate of Central Bank of Russian Federation (CBR) prevailing at the financial statement date. Income and expenses denominated in foreign currencies were translated at official exchange rates ruling at the dates of the transactions. Decrease or increase in assets and liabilities denominated in foreign currencies caused by changes in official exchange rate after date of transaction are recognized in profit or loss as foreign exchange gain or loss.

In case assets and liabilities are denominated in foreign currency (or standard units), transactions made in roubles are stated in the Company's financial statements in the same way as transactions denominated in foreign currency.

Revenue

Revenue from sale of goods (residential and commercial premises, construction materials) and services (rent, agent and transportation services)

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.

Revenue from construction services

For accounting purposes the Company 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 separate statement of comprehensive income when it is probable that the economic benefits associated with the transaction will flow to the Company 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.

All income and expenses are shown in the financial statements separately and net of VAT.

Employee benefits

Pensions

Company makes regular compulsory payments for its employees to State pension fund. Such circumstances should not be considered as long-term irrecoverable obligation of the Company as the government incurs all risks and rewards due to use of this scheme.

Post-employment benefits

According to existing legislation the Company has an obligation to provide termination benefits to employees which leave the Company for some specific reasons. Due to relatively insignificant number of such cases, the Company's management believes that they do not affect the financial statements and operations of the Company.

(in thousands of Russian roubles)

4. Operating segments

The Company has three reportable segments, as described below, which are the Company'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 Company's reportable segments:

- *Residential development.* Includes construction of residential real estate (including flats, built-in premises, parking places).
- *Construction services.* Includes construction services for third parties.
- *Other operations.* Include production, construction of stand-alone premises for commercial use and sale of construction materials, and lease out of properties. None of these meet any of the quantitative thresholds for determining reportable segments in 2012 or 2011.

Before 31 December 2011, segment information was prepared on an ad hoc basis and was not formalized. However, the new structure of the reporting for the future periods has been developed since that date. Segment information for the year ended 31 December 2011 has been recalculated according to the new structure and is presented below.

Information about reportable segments

	Residential development		Construction services		Other		Total	
'000 RR	2012	2011	2012	2011	2012	2011	2012	2011
External revenues / Total segment revenue	19 046 912	15 049 426	2 854 022	554 234	419 365	171 003	**22 320 299**	**15 774 663**
Gross profit	6 462 760	5 557 750	457 512	29 845	226 992	57 604	**7 147 264**	**5 645 199**
Reportable segment assets: inventory	18 883 918	19 866 233	-	-	658 852	999 733	**19 542 770**	**20 865 966**
Reportable segment liabilities: advances from customers	7 467 657	8 069 416	3 737 613	826 163	31 130	12 857	**11 236 400**	**8 908 436**

Reconciliations of reportable segment revenues, profit, assets and liabilities and other material items

'000 RR	2012	2011
Revenues		
Total revenue for reportable segments	22 320 299	15 774 663
Profit for the year		
Gross profit for reportable segments	7 147 264	5 645 199
General and administrative expenses	(964 287)	(753 027)
Selling expenses	(121 863)	(27 212)
Other operating expenses, net	(558 280)	(110 354)
Finance income	805 230	69 566
Finance costs	(88 420)	(809 235)
Profit before income tax	6 219 644	4 014 937
Assets		
Total assets for reportable segments: inventory	19 542 770	20 865 966
Total inventories	19 542 770	20 865 966
Liabilities		
Total liabilities for reportable segments: advances from customers	11 236 400	8 908 436
Total advances from customers	11 236 400	8 908 436

(in thousands of Russian roubles)

Major customers

During the year ended 31 December 2012, revenue from one customer of the Company, included into the segment "Construction services" amounted to '000 RR 2 762 892.

5. Property, plant and equipment

'000 RR	TOTAL	Buildings and constructions	Machines and equipment	Vehicles	Other
Cost as at 31 of December, 2011	**82 573**	**60 088**	**20 901**	-	**1 584**
Additions	151 841	135 265	12 646	3 885	45
Disposals	(37 639)	(34 862)	(2 518)	-	(259)
Cost as at 31 of December, 2012	**196 775**	**160 491**	**31 029**	**3 885**	**1 370**
Accumulated depreciation as at 31 of December, 2011	**(38 751)**	**(28 292)**	**(9 105)**	-	**(1 354)**
Depreciation accrued for the period	(30 245)	(26 323)	(3 650)	(221)	(51)
Depreciation on disposals	29 906	27 348	2 332	-	226
Accumulated depreciation as at 31 of December, 2012	**(39 090)**	**(27 267)**	**(10 423)**	**(221)**	**(1 179)**
Net book value as at 31 of December, 2011	**43 822**	**31 796**	**11 796**	-	**230**
Net book value as at 31 of December, 2012	**157 685**	**133 224**	**20 606**	**3 664**	**191**
Cost as at 31 of December, 2010	**299 052**	**67 767**	**229 649**	-	**1 636**
Additions	468 524	460 734	7 790	-	-
Disposals	(685 003)	(468 413)	(216 538)	-	(52)
Cost as at 31 of December, 2011	**82 573**	**60 088**	**20 901**	-	**1 584**
Accumulated depreciation as at 31 of December, 2010	**(130 915)**	**(45 344)**	**(84 478)**	-	**(1 093)**
Depreciation accrued for the period	(69 828)	(35 094)	(34 428)	-	(306)
Depreciation on disposals	161 992	52 146	109 801	-	45
Accumulated depreciation as at 31 of December, 2011	**(38 751)**	**(28 292)**	**(9 105)**	-	**(1 354)**
Net book value as at 31 of December, 2010	**168 137**	**22 423**	**145 171**	-	**543**
Net book value as at 31 of December, 2011	**43 822**	**31 796**	**11 796**	-	**230**

6. Investment property

'000 RR	2012	2011
Cost		
At the beginning of accounting period	**259**	**439 634**
Additions		-
Disposals		(439 375)
At the end of accounting period	**259**	**259**
Depreciation		
At the beginning of the accounting period	**(76)**	**(12 356)**
Depreciation charge for the period	(9)	(16)
Disposals		12 296
At the end of the accounting period	**(85)**	**(76)**
Net book value at the beginning of accounting period	183	427 278
Net book value at the end of accounting period	174	183

(in thousands of Russian roubles)

7. Intangible assets

Intangible assets of the Company include software and trade marks in total amount of '000 RR 862. Intangible assets were not impaired.

8. Long-term financial investments

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Equity investments in subsidiaries and associates	3 340 695	3 196 581
Other long-term equity investments	435	435
Loans given	13 185	163 615
Provision for impairment of financial assets	(87 670)	(72 430)
Total	**3 266 645**	**3 288 201**

Long-term equity investments in subsidiaries and associates include investments into the following companies.

'000 RR	As at 31 December, 2012	As at 31 December, 2011
CJSC "Zatonskoe"	1 643 409	1 643 409
CJSC "Aktiv"	973 050	973 050
LLC "Daikar"	472 500	472 500
LLC "UM Etalon"	144 114	-
CJSC "ZSM "Etalon"	91 075	91 075
LLC "Vertikal"	9 000	9 000
OJCS "SMU "Elektronstroy"	4 889	4 889
CJSC "SPb MFTC"	2 616	2 616
CJSC "TSUN LenSpetsSMU"	40	40
CJSC "LenSpetsSMU – Reconstruktsiya"	2	2
Total	**3 340 695**	**3 196 581**
Provision for impairment of investments	**(87 290)**	**(72 050)**
CJSC "ZSM "Etalon"	(72 050)	(72 050)
LLC "UM Etalon"	(15 078)	-
LLC "Vertikal"	(162)	-
Total, net of provision	**3 253 405**	**3 124 531**

Loans are denominated in Russian roubles and are stated at amortized cost using effective interest rate method. The effective interest rate was 11.87% at December 31, 2012 (December 31, 2011 - 12.25%).

9. Income taxes

Income tax expense is analysed as follows:

'000 RR	2012	2011
Current income tax	(1 174 562)	(1 231 012)
Income arising from origination and reversal of temporary differences	(159 875)	387 221
Total income tax	**(1 334 437)**	**(843 791)**

The applicable rate of corporate income tax in the Russian Federation is 20%.

(in thousands of Russian roubles)

Reconciliation of accounting profit before income tax to income tax expense:

RR'000	2012	2011
Profit before income tax	6 219 644	4 014 937
Theoretical tax charge at the applicable statutory rate (20%) in the reporting period	(1 243 929)	(802 987)
Adjustments for expenses non-deductible for taxation purposes	(90 508)	(40 804)
Total income tax expense	**(1 334 437)**	**(843 791)**

The analysis of deferred tax assets and liabilities:

'000 RR	2012	2011
Deferred tax assets	**2 947 279**	**2 308 278**
Property, plant and equipment and intangible assets	76 705	77 858
Financial investments	17 458	14 410
Trade accounts receivable	-	1 181
Inventories	445 685	358 313
Prepaid expenses relating to future periods	-	3 584
Provisions	65 471	7 332
Accounts payable	2 341 960	1 845 600
Setting off deferred tax assets and liabilities	(2 947 279)	(2 308 278)
Deferred tax asset:	-	-
Deferred tax liabilities	**(3 136 184)**	**(2 337 308)**
Property, plant and equipment and intangible assets	-	(11)
Loans and borrowings	(9 995)	(10 867)
Investments	(75 768)	(47 018)
Accounts receivable	(746 810)	(27 297)
Inventories	(49)	(50)
Accounts payable	(2 281 840)	(2 252 065)
Provisions	(258)	-
Other current assets	(21 464)	-
Setting off deferred tax assets and liabilities	2 947 279	2 308 278
Deferred tax liability:	**(188 905)**	**(29 030)**
Net deferred tax liability	**(188 905)**	**(29 030)**
Net change in deferred tax assets and liabilities recognized in the statement of comprehensive income	**(159 875)**	

10. Inventories

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Goods for re-sale	**9 959 654**	**10 683 340**
Apartments – finished goods	7 306 234	7 265 388
Built-in premises (non residential)	2 987 601	3 400 211
Apartments for resale	33 836	44 545
Provision for impairment of goods	(368 017)	(26 804)
Construction materials	**11 086**	**16 513**
Other	**10 233**	**861**
Provision for impairment of slow-moving materials	**(294)**	**(684)**
Work in progress	**9 562 091**	**10 165 936**
Construction in progress of apartment and commercial building objects	8 941 476	9 624 499
Construction in progress of garage building objects	620 615	541 437
Total	19 542 770	20 865 966

(in thousands of Russian roubles)

Work in progress in amount of '000 RR 9 562 091 include the following objects:

'000 RR	December 31, 2012			December 31, 2011		
	Housing construction objects	Garage building objects	Total	Housing construction objects	Garage building objects	Total
Lastochkino Gnezdo	3 575 880	378 866	3 954 746	738 710	7 285	745 995
Samocvety	1 469 549	-	1 469 549	911 491	-	911 491
Letniy	1 109 426	9 328	1 118 754	393 554	456	394 010
Molodejniy	922 420	23 494	945 914	4 728	-	4 728
Galant	675 690	41 666	717 356	431 440	-	431 440
Tzarskaya stolitca	581 127	137 789	718 916	89 897	-	89 897
Rechnoy	206 373	3 788	210 161	-	-	-
Koroleva 46	157 243	726	157 969	147 305	672	147 977
Galaktika	12 887	-	12 887	-	-	-
Technopark	10 146	24 958	35 104	8 074	24 958	33 032
Moskovskiy	-	-	-	17 914	-	17 914
Yubileiny kvartal	-	-	-	2 110 554	166 946	2 277 500
Orbita	-	-	-	3 104 614	236 614	3 341 228
Etyud	-	-	-	706 986	58 386	765 372
Prestige	-	-	-	711 736	46 120	757 856
Infrastructure objects	75 816	-	75 816	243 210	-	243 210
Other objects	144 919	-	144 919	4 286	-	4 286
TOTAL	**8 941 476**	**620 615**	**9 562 091**	**9 624 499**	**541 437**	**10 165 936**

The analysis evidences that that in 2012 the largest non-completed item was housing complex "Lastochkino Gnezdo.

Apartments purchased by the Company for further re-sale (in particular – at the secondary market) in amount of '000 RR 33 836 as well as apartments, which construction was financed by Company and customers in amount of '000 RR 7 306 234 are included in goods for re-sale.

11. Short-term financial investments

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Financial assets held-for-trading	**2 729 675**	**1 983 081**
Loans given	**7 750**	**33 167**
Other loans given	7 750	33 167
Deposits	**6 240 877**	**2 055 000**
Total	**8 978 302**	**4 071 248**

Financial assets held-for-trading include property units in garage-building cooperatives. The units are stated at cost which approximates their fair value.

Deposits amounting to '000 RR 6 240 877 have been placed at the effective interest rate of 6,36% for the period from 94 to 181 days.

(in thousands of Russian roubles)

12. Accounts receivable and prepayments

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Non-current	**16 851**	**1 832**
Prepayments to suppliers on the principal activities	16 851	1 832
Current	**13 292 182**	**7 617 532**
Accounts receivable for the principal activities	1 521 401	1 104 858
Accounts receivable in form of promissory notes	143 114	168 494
Prepayments to suppliers on the principal activities	9 220 698	4 712 473
Other accounts receivable and prepayments	1 828 067	1 446 661
Provision for bad and doubtful debts	(51 514)	(41 327)
VAT recoverable	627 733	225 895
Other taxes receivable	2 683	478
Total	13 309 033	7 619 364

Movement in provision for bad and doubtful accounts receivable during the reporting period:

'000 RR	2012
At 1 January 2012	**(41 327)**
Charge for the year	(31 202)
Utilized	1 423
Unused amounts reversed	19 592
At 31 December 2012	**(51 514)**

The major counterparts for prepayments are GUP "Vodokanal" (connecting to water supply), LLC "Peterburgskiy Vzglyad" (prepayment for a plot of land), OJSC "Teploset' Sankt-Peterburga" (connecting to heat supply), LLC "LSS Varshavskaya (prepayment for a plot of land), LLC "LSS-stroy" (investments in construction).

Other accounts receivable and prepayments include balances related to settlements under rent agreements, settlements for apartments purchased from individuals, settlements for shares in garage building cooperatives (GBC) and other settlements.

Significant part of the Company's accounts receivable is due from its subsidiaries and associated companies:

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Accounts receivable for principal activities	**636**	**1 176**
CJSC "TSUN LenSpetsSMU"	489	1 176
CJSC "LenSpetsSMU-Reconstruktsiya"	147	-
Advances given	**2 541 252**	**2 150 535**
CJSC "Zatonskoe"	2 090 332	2 150 331
CJSC "LenSpetsSMU-Reconstruktsiya"	12 586	204
LLC "Daikar"	409 588	-
CJSC "SPb MFTC"	28 746	-
Other accounts receivable and advances given	**86 873**	**471 657**
CJSC "TSUN LenSpetsSMU"	73 194	61 932
CJSC "Aktiv"	1 525	137
CJSC "LenSpetsSMU-Reconstruktsiya"	160	-
CJSC "SPb MFTC"	11 994	-
LLC "Daikar"	-	409 588
Total	2 628 761	2 623 368

(in thousands of Russian roubles)

13. Other current assets

Other current assets include insurance payments disbursed in the reporting period, however relating to future accounting periods.

14. Cash and cash equivalents

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Cash on hand	600	234
Current and settlement accounts	101 511	82 268
Deposits	4 488 227	2 660 587
Cash in transit	700	-
Total	**4 391 038**	**2 743 089**

15. Loans and borrowings

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Long-term		
Bank borrowings (principal amount)	4 171 160	3 654 569
Corporate borrowings (principal amount)	7 600 858	5 285 636
	11 772 018	**8 940 205**
Short-term		
Bank borrowings (principal amount)	798 000	152 822
Bank borrowings (interest)	13 363	13 243
Corporate borrowings (principal amount)	2 410 669	1 690 902
Corporate borrowings (interest)	93 820	91 943
	3 315 852	**1 948 910**
Total loans and borrowings	**15 087 870**	**10 889 115**

Below are stated details of the balances outstanding:

	Currency	Nominal interest rate	Year of maturity	December 31, 2012		December 31, 2011	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				**2 828 504**	**2 828 504**	**1 458 137**	**1 458 137**
Secured bank loan	EUR	EURIBOR 6M+5.25%	2014	1 352 644	1 352 644	1 241 958	1 241 958
Secured bank loan	EUR	EURIBOR 6M+3.85%	2015	876 150	876 150	216 179	216 179
Secured bank loan	EUR	EURIBOR 6M+3.2%	2017	599 710	599 710		-
Unsecured bank loans				**2 154 019**	**2 154 019**	**2 362 497**	**2 362 497**
Unsecured bank loan	USD	LIBOR 3M+6.5%	2014	290 586	290 586	468 575	468 575
Unsecured bank loan	USD	LIBOR 3M+6.5%	2014	607 453	607 453	643 922	643 922
Unsecured bank loan	RUB	9.00%	2013	5 980	5 980	-	-
Unsecured bank loan	RUB	9.50%	2015	1 250 000	1 250 000	1 250 000	1 250 000
Unsecured loans				**10 157 225**	**10 105 347**	**7 122 742**	**7 068 481**
Unsecured bonds	RUB	16.00%	2012	-	-	806 320	802 381
Unsecured bonds	RUB	14.50%	2013	609 300	608 359	1 522 040	1 516 803
Unsecured bonds	RUB	12.90%	2017	5 022 950	4 997 829	-	-
Unsecured bonds	USD	9.75%	2015	4 515 556	4 490 752	4 784 957	4 740 804
Unsecured loan	RUB	0.5%	2013-2014	9 419	8 407	9 425	8 493
				15 139 748	15 087 870	10 943 376	10 889 115

(in thousands of Russian roubles)

Bank loans are secured by mortgage of land plots with a carrying amount of '000 RR 6 088 (mortgage value '000 RR 47 722), buildings with a carrying amount of '000 RR 145 099 (mortgage value '000 RR 170 281), goods with a carrying amount of '000 RR 447 304 (mortgage value '000 RR 427 135).

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

All corporate loans are unsecured.

a) Bank borrowings

'000 RR	As at 31 December, 2012
Undiscounted principal amount at the beginning of the period	**3 807 391**
Received (principal amount)	2 733 112
including foreign exchange difference	*368 350*
Repaid (principal amount)	(1 571 343)
including foreign exchange difference	*(462 030)*
Balance at the end of the period (principal amount)	**4 969 160**
Balance at the beginning of the period (interest)	**13 243**
Charged to expenses (interest)	1 517
Capitalised (interest)	291 244
including foreign exchange difference	*1 517*
Interest offset	
Paid up (interest)	(292 641)
including foreign exchange difference	*(1 876)*
Balance at the end of the period (interest)	**13 363**
Balance at the end of the period (principal amount), analyzed by currency	**4 969 160**
- Russian roubles	1 255 980
- US dollars	895 788
- Euros	2 817 392
Total, borrowings (principal amount) at the end of period at cost	**4 969 160**
Payable within 12 months after the financial statement date (principal amount)	798 000
Payable within 2 years after the financial statement date (principal amount)	1 634 683
Payable within 3 years after the financial statement date (principal amount)	2 536 477
Payable within 4 years after the financial statement date (principal amount)	-
Payable within 5 years after the financial statement date (principal amount)	-
Total, borrowings (interest) at the end of period at cost	**13 363**
Payable within 12 months after the financial statement date (interest)	13 363
Total amount due (principal amount and interest), undiscounted	**4 982 523**
Total amount due (principal amount and interest), amortized	**4 982 523**
including interest	13 363

(in thousands of Russian roubles)

b) Corporate borrowings

'000 RR	As at 31 December, 2012
Balance at the beginning of the period (principal amount), undiscounted	**7 030 799**
Received (principal amount)	5 687 030
including foreign exchange difference	*687 030*
Repaid (principal amount)	(2 660 540)
including foreign exchange difference	*(960 540)*
Repurchased obligations	6 116
Balance at the end of the period (principal amount)	**10 063 405**
Balance at the beginning of the period (interest)	**91 943**
Charged to expenses (interest)	91 225
Capitalised (interest)	651 517
including foreign exchange difference	*2 804*
Effect on accounts receivable	(76)
Paid up (interest)	(741 254)
including foreign exchange difference	*(6 919)*
Repurchased obligations	465
Balance at the end of the period (interest)	**93 820**
Balance at the end of the period (principal amount), analyzed by currency	**10 063 405**
- Russian roubles	5 609 370
- US dollars	4 454 035
Total balance at the end of the period (principal amount and interest), undiscounted	**10 157 225**
Payable within 12 months after the financial statement date (principal amount)	2 411 610
Payable within 12 months after the financial statement date (interest)	93 820
Payable within 2 years after the financial statement date	1 558 378
Payable within 3 years after the financial statement date	1 643 417
Payable within 4 years after the financial statement date	2 200 000
Payable within 5 years after the financial statement date	2 250 000
Total amount due (principal amount and interest), amortized	**10 105 347**
including interest	93 820

Effective capitalization rate during the year ended December 31, 2012 was 8,08%.

16. Liabilities

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Non-current liabilities	**109**	**5 476**
Other payables	109	5 476
Current liabilities	**14 724 876**	**12 357 258**
Payables to suppliers and contractors	2 872 503	2 647 812
Advance payments received on primary activity	11 236 400	8 908 436
Salary payable	51 830	28 678
VAT payable	451 721	357 373
Other taxes payable	35 026	14 785
Other short-term liabilities	77 396	400 174
Total	**14 724 985**	**12 362 734**

The Company mainly sells constructed residential and non-residential property on prepayment basis using preliminary sale agreements (PSA). According to this scheme CJSC "TSUN LenSpetsSMU" searches the market for potential customers and then signs sale agreements in the name of the Company. Cash received by CJSC "TSUN LenSpetsSMU" from customers is further transferred to the Company, which records these amounts as advances received from customers on primary activity.

In addition to preliminary sale agreements the Company uses share participation agreements and investment agreements instruments. Funds received by CJSC SSMO "LenSpetsSMU" under share participation agreements and investment agreements are accounted by the Company as advances received from customers on primary activity.

(in thousands of Russian roubles)

Advances received from customers on primary activity are credited to income mainly after the construction items have been accepted by the state commission and only when the following criteria have been met: transfer to the buyer all significant risks and rewards, the amount of revenue and related cost can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company

Payables to suppliers and contractors amounting to '000 RR 2 872 503 include '000 RR 1 449 202 due to related parties for construction works, amount '000 RR 429 081 due to CJCS "SU-267", amount '000 RR 156 739 due to CJCS "Novator", amount '000 RR 135 252 due to CJCS "EtalonProekt", and amount '000 RR 112 860 due to LLC "Energostndart".

Significant part of CJSC SSMO "LenSpetsSMU"'s accounts payable is due to subsidiaries and associated companies:

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Payables to suppliers and contractors	**1 449 201**	**1 522 597**
CJSC "SPb MFTC"	1 311 758	1 196 253
CJSC "LenSpetsSMU – Reconstruktsiya"	95 577	196 816
CJSC "Aktiv"	41 866	116 290
CJSC "Zatonskoe"	-	13 210
OJCS "SMU" "Elektronstroy"	-	28
Advance payments received on primary activity	**-**	**589**
CJSC "TSUN LenSpetsSMU"	-	589
Other short-term liabilities	**47 488**	**22 362**
CJSC "Aktiv"	33 736	246
CJSC "TSUN LenSpetsSMU"	13 752	22 116
Total	**1 496 689**	**1 545 548**

17. Provisions

'000 RR	As at 31 December, 2012	As at 31 December, 2011
Provision for deferred works, short-term	539 766	914 141
Provision for court litigations	9 575	300
Total provisions	**549 341**	**914 441**

Analysis of movement in provisions in the reporting year:

'000 RR	Provision for deferred works, short-term	Provision for court litigations
At January 1, 2012	**914 141**	**300**
Increase	860 154	9 575
Utilization	(1 233 483)	(300)
Unused amounts reversed	(1 046)	-
At December 31, 2012	**539 766**	**9 575**

(in thousands of Russian roubles)

18. Share capital

At 31 December 2012 authorized, issued and fully paid in share capital of the Company comprised of 10 501 000 shares of par value 200 roubles (2011: 10 501 000 shares).

Issued and fully paid in share capital:

	Number of shares	Carrying value, RR'000
As at January 1, 2011	1 000	1 237
Issued during the year	10 500 000	2 100 000
As at December 31, 2011	**10 501 000**	**2 101 237**
As at December 31, 2012	**10 501 000**	**2 101 237**

Carrying value of share capital includes inflation adjustment amounting to '000 RR 1 037 recorded in prior periods due to hyperinflation in the economy of the Russian Federation in the period from beginning of 1990 to December 31, 2002.

All of the 10 500 thousand shares issued in 2011 were purchased by the Company's immediate parent CJSC "Managerial company-Construction holding "Etalon-LenSpetsSMU" at par value 200 roubles per share.

Basic earnings per share have been calculated by dividing the amount of profit attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year, as shown below. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	**2012**	**2011**
Issued shares at 1 January	10 501 000	1 000
Effect of shares issued in December	-	316 438
Weighted average number of shares for the year ended 31 December	10 501 000	317 438
Profit attributable to the owners of the Company, '000 RR	4 885 207	3 171 146
Basic and diluted earnings per share, '000 RR	0,47	9,99

Shareholders of the Company as at December 31, 2012 were as follows:

Shareholder	Number of shares	Share, %	Nominal value, '000 RR	Carrying value, '000 RR
CJSC "Managerial company-Construction holding "Etalon – LenSpetsSMU"	10 500 985	100%	2 100 197	2 101 218
Other	15	0,00%	3	19
	10 501 000	**100%**	**2 100 200**	**2 101 237**

19. Revenue

'000 RR	2012	2011
Commissioning of construction objects	10 852 432	5 741 513
Sale of finished goods - apartments	7 110 388	7 861 130
Construction works	2 854 022	554 234
Built-in premises	1 077 590	1 442 073
Rent	164 636	78 137
Resale of apartments	6 502	4 710
Sales of other works, goods and services	254 729	92 866
Total	**22 320 299**	**15 774 663**

(in thousands of Russian roubles)

20. Cost of sales

'000 RR	2012	2011
Commissioning of construction objects	7 686 329	4 081 742
Cost of apartments – finished goods	4 098 882	4 490 031
Construction works	2 396 121	518 036
Built-in premises	783 751	863 713
Maintenance expenses	112 753	5 181
Depreciation	9 378	49 447
Resale of apartments	5 811	6 743
Other costs	80 010	114 571
Total	**15 173 035**	**10 129 464**

21. Long-term construction contracts

Recognition of revenue and expenses for long-term construction contracts is made by reference to the stage of completion of the contract activity at the end of the reporting period.

The stage of completion is determined as proportion that contract costs incurred for works performed at the end of the reporting period bear to the estimated total contract costs.

'000 RR	2012	2011
Revenue from long-term construction contracts in the reporting period	2 832 547	422 955
Costs incurred under long-term construction contracts in the reporting period	(2 353 753)	(409 457)
Total profit recognized under long-term construction contracts	**478 794**	**13 498**
Aggregated cost incurred and recognized profit under long-term construction contracts outstanding at the end of reporting period	3 157 131	331 066
Unbilled receivables	10 337	232 949
Billings in excess of work completed	8 914	5 517
Advances for which the related work has not started	3 737 613	799 455
Retentions relating to construction contracts	123 507	-

22. Selling and administrative expenses

'000 RR	2012	2011
Selling expenses	**121 863**	**27 212**
Agent services	87 671	13 070
Advertising and marketing	25 933	14 117
Other costs	8 259	25
General and administrative expenses	**964 287**	**753 027**
Wages, salaries and other personnel expenses	515 673	382 011
Management services	245 556	191 696
Maintenance expenses	101 252	65 088
Rent	21 257	21 897
Consulting, legal, audit and other professional services	13 811	25 440
Transport	6 708	6 680
Depreciation	2 601	2 457
Communication services	2 637	2 294
Other costs	54 792	55 464
Total selling and administrative expenses	**1 086 150**	**780 239**

(in thousands of Russian roubles)

23. Other operating income and expenses

'000 RR	2012	2011
Gain from sale of financial assets	46 513	11 901
Change in provision for impairment of materials	16 920	(22 494)
Fines, penalties and forfeits receivable	7 644	9 966
Income / (expenses) from write off of accounts payable/accounts receivable	4 692	(991)
Unused provisions	1 046	-
Gain/(loss) from disposal of property, plant and equipment and other assets	710	(112 121)
Settlements after acceptance of the house by State commission	259	73
Provision for ongoing court litigations	(2 440)	60 800
Fines, penalties and forfeits payable	(5 269)	-
Warranties	(5 453)	-
Social services	(5 682)	(7 457)
Prior period expenses	(8 001)	-
Provision for bad and doubtful debts	(11 610)	54 866
Provision for impairment of financial assets	(15 240)	4 290
Reimbursement of expenses from other operations	(20 255)	53 026
Social expenses and other payments to employees	(22 558)	(15 438)
Bank commissions	(26 364)	(18 379)
Impairment provision for inventory (goods for resale)	(366 274)	-
Other	(20 807)	(49 501)
Total other operating expenses, net	**(432 169)**	**(31 459)**

24. Finance income and expenses

'000 RR	2012	2011
Interest income	460 134	58 109
Net foreign exchange gain / (loss)	332 653	(591 062)
Amortization of financial assets	12 444	11 457
Interest expense	(88 421)	(218 173)
Total	**716 810**	**(739 669)**

25. Related party transactions

Company performs transactions with the following subsidiaries:

	As at 31 December, 2012	As at 31 December, 2011
CJSC "Aktiv"	100,00%	100,00%
LLC "Vertikal"	100,00%	100,00%
OJSC "SMU "Elektronstroy"	99,24%	99,24%
LLC "Daikar"	95,00%	95,00%
CJSC "SPb MFTC"	61,00%	61,00%
CJCS "TSUN LenSpetsSMU"	40,00%	40,00%
LLC "UM Etalon"	20,36%	-

(in thousands of Russian roubles)

The Company also performs transactions with the following associated companies:

	As at 31 December, 2012	As at 31 December, 2011
CJSC "LenSpetsSMU – Reconstruktsiya"	25,00%	25,00%
CJSC "ZSM "Etalon"	45,00%	45,00%
CJSC "Zatonskoe"	48,00%	48,00%

Transactions with the related parties are disclosed in corresponding notes to the separate financial statements.

There were benefits to key management personnel imposed at a rate of 13%.

'000 RR	2012	2011
Key management personnel	85 574	41 010

26. Financial risk management

The Company principal financial liabilities include bank loans and borrowings and trade payables. The major purpose of these liabilities is to raise finance for the Company's operations. The Company's principal financial assets, such as cash, short-term investments and trade receivables arise directly from the operations.

The Company's activities expose it to credit risk, liquidity risk, foreign currency risk and interest rate risk. The risk management policies employed by the Company to manage these risks are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the financial statement date. The Company has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of financial assets in the statement of financial position.

Credit risk is monitored on continuous basis and reflected in accounting for bad and doubtful debts provision. Though the repayment of accounts receivable depends on various economic factors, the management of the Company considers bad and doubtful debt provision is adequate for compensation of prospective losses resulting from doubtful debts repayment failure.

The Company generally does not require collateral in respect of its financial assets. Investments are allowed only in liquid securities and only with counter-parties that have a credit rating equal to or better than the Company. Given their high credit ratings, the management does not expect any counter-party to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of financial assets and liabilities does not match. An unmatched position could potentially enhance profitability but could also lead to losses. The Company manages its exposure to liquidity risk to minimize risks of losses by maintaining certain level of cash and other highly liquid assets and ensuring of timely access to facilities.

(in thousands of Russian roubles)

The table below summarizes the maturity profile of the Company's financial liabilities at the reporting date based on contractual undiscounted payments.

31 December 2012 '000 RR	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings (including future interest expense)	4 579 610	14 242 070	-	18 821 680
Trade and other payables	3 001 729	109	-	3 001 838
Provisions	549 341	-	-	549 341
	8 130 680	**14 242 179**	**-**	**22 372 859**

31 December 2011 '000 RR	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings (including future interest expense)	2 969 140	10 047 020	-	13 016 160
Trade and other payables	3 076 664	5 476	-	3 082 140
Provisions	914 441	-	-	914 441
	6 960 245	**10 052 496**	**-**	**17 012 741**

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in currency that is different from functional currency.

The Company is exposed to foreign exchange risk arising primarily with respect to United States dollar and euro. The Company's management monitors the exchange rate fluctuations on a continuous basis and corrects the Company's exposure accordingly. In light of weakening of Russian rouble against US dollar or euro the Company repurchases part of its debt instruments nominated in US dollars or euro.

At December 31, 2012, if the Russian rouble weakened against US dollar and euro by 15% with all other variables held constant, the Company's profit before taxation would reduce at 766 171 '000 RR (2011 – 962 614 '000 RR), mainly due to foreign exchange differences arising on loans, borrowings and investments nominated in US dollars and euro.

The major portion of costs and investments of the Company is nominated in Russian roubles and therefore not exposed to foreign currency risk. The Company does not export its production. Import of equipment and fixtures is relatively insignificant being compared to the total purchases. The Company determines prices for its production in standard units which correlate to US dollar/rouble exchange rate. The exchange rate has a fixed lower limit to secure the Company against abrupt reduction in the exchange rate of US dollar.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company monitors the movements in interest rates on a continuous basis and ensures that its exposure to changes in interest rates is minimized by borrowing and lending at fixed interest rates. As a result the Company's exposure to interest rate risk is reduced to minimum.

Fair values versus carrying amounts

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

Capital risk management

The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern while maximizing the return to stakeholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company's management reviews the capital structure on a ongoing basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Company balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Company monitors capital on the basis of gearing ratio which is calculated as net debt divided by the sum of total equity capital and net debt.

27. Industry risk management

The Company is a member of the holding CJSC "Managerial company-Construction holding "Etalon-LenSpetsSMU" (hereinafter – Construction Holding "Etalon-LenSpetsSMU") and operates in St. Petersburg real estate market. The core business of the Company is rendering construction services, which include implementing all stages of the investment and construction process. Industry risks affecting the Company include:

- **The risk of reduction of demand in the real estate market.** The Company is engaged in real estate development and manages its investment and construction projects in the real estate market of St. Petersburg. To minimize the risk the Company monitors the changes in both the current structure of the demand and its forecasts in the real estate market in order to reflect the changes in its plans to construct new objects and enhance its advertisement activities. The decrease in purchase demand is to some extent compensated by obtaining loans and borrowings denominated in Russian roubles and optimization of both production and finance activities;
- **The risk of reduction in market prices for real estate.** The risk of reduction in prices may negatively impact the profitability of the Company's core business. To minimize the existing risk the Company attempts to compensate the negative effects to profit by reducing its costs, increase in volumes of production and establishing a whole production cycle being performed within Construction Holding "Etalon LenSpesSMU";
- **The risk of change in purchase prices for construction materials used by the Company in its activities.** The Company is a part of Construction Holding "Etalon LenSpetsSMU" which produces construction materials (brick earth mining with subsequent brick production, concrete production, etc.). Performance of effectively the whole production cycle by its own production facilities allows the Company to avoid both abrupt change in purchase prices and lack of supply in construction materials.

28. Contingencies

Taxation

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, different interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the resulting effect to the Company's financial statements may be significant.

Guarantees issued

CJSC SSMO "LenSpetsSMU" issued guarantees related to its main activities amounting to '000 RR 229 357 (December 31, 2011 – '000 RR 193 492).

29. Events subsequent to financial statement date

As at 16.01.2013 the Company repaid the first tranche of credit line granted by OJSC "Alfa-Bank" (import-export financing of the project "Yubileiny kvartal 78A block 2») in the amount of '000 EURO 8 544. The outstanding balance of the credit line reduced to '000 EURO 25 060.

As at 04.02.2013 the Company repaid the fourth tranche of the non-renewable credit line granted by CJSC "Raiffeisenbank" in the amount of '000 USD 1 582 and fully repaid the outstanding balance of the credit line in the amount of '000 USD 7 911.

As at 11.02.2013 the Company made the first payment of principle on the loan granted by North Star SA in the amount of '000 USD 16 500 and interest in the amount of '000 USD 3 738.

As at 21.02.2013 the Company paid the 11-th coupon of its BO-02 series bonds (4B02-02-17664-J dated April 12, 2010) in the amount of '000 RR 21 700.

As at 19.03.2013 the Company paid the 1-st coupon of its 02 series bonds (4-02-17664-J dated November 20, 2012) in the amount of '000 RR 160 800.

From January till March 2013, the Company received 3 tranches of credit line granted by OJSC "Alfa-Bank" (import-export financing of the project "Lastochkino Gnezdo", 1st turn) in the amount of '000 EUR 4 297. As a result, total amount borrowed under the credit line facility increased to '000 EUR 19 199.

On 09.04.2013, the Company received the first tranche of loan from CJSC "Bank of China (ELUOSI)" in the amount of '000 RR 30 000.