Original in Russian language

Group of companies “LenSpetsSMU”

Consolidated financial statements prepared under IFRS

for 12 months ended December 31, 2010
including independent auditor’s report

Contents

ICLC | NEXIA INTERNATIONAL

Independent auditor's report

To the shareholders of the Group of companies "LenSpetsSMU"

We have audited the accompanying consolidated financial statements of CJSC SSMO "LenSpetsSMU" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

General Director — D. Vinokurov

"ICLC"

Moscow, Russian Federation
28 April 2011

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	Notes	As at December, 31 2010 RR'000	As at December 31, 2009 RR'000
ASSETS			
Non-current assets			
Fixed assets	6	707 571	1 215 389
Investment property	7	618 804	308 515
Intangible assets	8	2 036	2 997
Investments in associates	9	1 799 889	1 772 492
Long-term financial investments	10	1 602 233	28 707
Deferred tax assets	11	157 128	125 284
		4 887 661	**3 453 384**
Current assets			
Inventories	12	20 322 363	22 544 837
Short-term investments	13	1 656 971	1 699 182
Accounts receivable and advances	14	4 660 162	4 319 348
Income tax receivable		14 098	49 252
Other current assets	15	2 396	3 068
Cash and cash equivalents	16	2 751 286	2 157 755
		29 407 276	**30 773 442**
Total assets		**34 294 937**	**34 226 826**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	1 237	1 237
Retained earnings		10 172 026	6 431 868
		10 173 263	6 433 105
Non-controlling interests		1 086 323	1 026 921
Total equity		**11 259 586**	**7 460 026**
Non-current liabilities			
Long-term borrowings	18	7 762 080	2 673 451
Deferred tax liabilities	11	456 936	605 227
		8 219 016	**3 278 678**
Current liabilities			
Short-term borrowings	18	1 401 875	3 405 377
Advances received on principal activity	19	10 019 434	15 167 357
Accounts payable and other liabilities	20	2 961 619	4 746 490
Income tax payable		433 407	168 898
		14 816 335	**23 488 122**
Total equity and liabilities		**34 294 937**	**34 226 826**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7–28.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

April, 28 2011

	Notes	12 months ended December 31, 2010 RR'000	12 months ended December 31, 2009 RR'000
Revenue	21	17 708 524	18 169 818
Cost of sales	22	(10 991 238)	(11 079 444)
Gross profit		**6 717 286**	**7 090 374**
Selling expenses	24	(180 142)	(147 030)
General and administrative expenses	25	(1 025 366)	(725 714)
Taxes, other than income tax		(111 865)	(95 259)
Other operating expenses (net)	26	(6 815)	(210 830)
Operating profit		**5 393 098**	**5 911 541**
Share in profit of associates		8 447	19 380
Net finance expenses	27	(494 493)	(1 344 052)
Profit before income tax		**4 907 052**	**4 586 869**
Income tax	28	(1 129 197)	(1 010 574)
Net profit for the year*		**3 777 855**	**3 576 295**
Attributable to:			
Equity holders of the parent		**3 734 130**	**3 385 059**
Non-controlling interests		**43 725**	**191 236**
Basic and diluted earnings per share		**3 734,13**	**3 385,06**

*-No Other comprehensive income was recognized by the Group in either 2010 or 2009.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7–28.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

April, 28 2011

	12 months ended December 31, 2010 RR'000	12 months ended December 31, 2009 RR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax:	4 907 052	4 586 870
Adjustments for:	**658 228**	**1 549 752**
Depreciation and amortization	*181 905*	*153 035*
Profit from sale of financial assets	*(55 486)*	*(219 111)*
Profit from disposal of subsidiaries	*(126 616)*	*-*
Provision for impairment of inventories	*(7 008)*	*69 892*
Provision for bad debts	*(61 011)*	*185 739*
Provision for ongoing court litigations	*41 100*	*21 195*
Provision for impairment of financial investments	*72 217*	*9 374*
Foreign exchange loss	*20 570*	*255 533*
Interest expense	*606 667*	*806 971*
Interest income	*(103 991)*	*(137 720)*
Changes in amortized cost of financial assets	*(28 753)*	*-*
Share in profit of associates	*(8 447)*	*(19 380)*
Loss on disposal of non-current assets	*127 081*	*5 845*
Other income and expenses	*-*	*418 379*
Operating profit before changes in working capital	**5 565 280**	**6 136 622**
Increase in trade accounts receivables and advances	(340 722)	(665 192)
Decrease in inventories	2 489 980	3 386 757
Decrease in trade payables and advances received	(7 939 909)	(5 466 349)
Changes in other assets and liabilities	672	4 778
Cash (used in)/ generated from operations	**(224 699)**	**3 396 616**
Income taxes paid	(1 020 299)	(452 258)
Net cash (used in)/ from operating activities	**(1 244 998)**	**2 944 358**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed and intangible assets	(169 208)	(325 087)
Proceeds from sale of fixed and intangible assets	10 789	121 044
(Purchase)/sale of securities and other financial assets	578 728	(1 112 003)
Purchase of associates	(91 000)	-
Purchase and disposal of subsidiaries	(325 294)	-
Proceeds from repayment of bank deposits	-	1 264 672
Disbursement of loans	(665 840)	(191 648)
Repayments of loans	291 545	69 152
Interest received	94 523	87 721
Dividends received	-	11 375
Net cash used in investing activities	**(275 757)**	**(74 774)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	11 892 429	8 360 426
Repayment of borrowings	(8 958 163)	(8 546 818)
Interest paid	(798 644)	(876 644)
Net cash flows from (used in) financing activities	**2 135 622**	**(1 063 036)**
Effect of exchange rate changes on cash and cash equivalents	(21 336)	216 375
Net increase in cash and cash equivalents	**593 531**	**2 022 923**
Cash and cash equivalents at the beginning of the year	**2 157 755**	**134 832**
Cash and cash equivalents at the end of the year	**2 751 286**	**2 157 755**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7–28.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

April, 28 2011

RR'000	Share capital	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 01, 2009	**1 237**	**3 046 809**	**3 048 046**	**835 685**	**3 883 731**
Net profit for the year	-	3 385 059	3 385 059	191 236	3 576 295
Balance at December 31, 2009	**1 237**	**6 431 868**	**6 433 105**	**1 026 921**	**7 460 026**
Acquisition of subsidiaries (Note 5)	-	-	-	24 868	24 868
Acquisition of non-controlling interests (Note 5)	-	6 028	6 028	(9 191)	(3 163)
Net profit for the year	-	3 734 130	3 734 130	43 725	3 777 855
Balance at December 31, 2010	**1 237**	**10 172 026**	**10 173 263**	**1 086 323**	**11 259 586**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7–28.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

April, 28 2011

1. Principal activities

One of the largest building and industrial holdings of Saint-Petersburg – LenSpetsSMU – was founded in 1987 as a private building company. The Holding specializes in mass house building under brick and monolith technology in the field of higher comfort and business-class housing.

At present the share of the building market falling on the objects erected by the holding “LenSpetsSMU” constitutes about 8% of the whole building market of Saint-Petersburg. For 12 months ended December 31, 2010 the Group has constructed buildings of total area of 212 784.9 sq.m.

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

The parent company – Closed joint stock company Specialized Building and Assembly Association “LenSpetsSMU” was registered under the Resolution of the Registration chamber of Saint-Petersburg dated 28.12.1995. The last edition of Charter was registered on 28.12.2007.

CJSC Specialized Building and Assembly Association “LenSpetsSMU” and its subsidiary CJSC “SPb MFTC” are members 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:
- permission to perform the functions of general subcontractor;
- certificate for access to works which influence safety of capital construction;
- permission to perform the functions of technical supervision (functions of building developer).

Main subsidiaries are: CJSC “AKTIV”, CJSC “SPb MFTC”, OJSC “SMU “Electronstroy”, CJSC “CUN”, LLC “Vertikal”, LLC “Daikar”.

Main associated companies are CJSC “LenSpetsSMU-Reconstruction”, CJSC “Building materials factory “Etalon”, CJSC “Zatonskoye”, CJSC “ART-Business-TV”.

The parent company and the subsidiaries are named hereinafter “the Group”. Shareholders of the parent are legal entity and individual, a citizen of the Russian Federation. The parent’s head office is located in Saint-Petersburg at the following address: Bogatyrskiy prospect, 2.

Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment. The impact of such differences on the operations and the financial position of the Group may be significant.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’), and Interpretations, promulgated by the International Accounting Standards Board (‘IASB’) and the International Financial Reporting Interpretations Committee (the ‘IFRIC’).

The Group companies maintain its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated 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 current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2010.

(b) Consolidation and accounting for business combinations

Subsidiaries are the legal entities (including special purpose entities), where the Group has the power to govern the financial and operating policies (to control) as a result of:
- power over more than one-half of the voting rights of the other entity, or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the subsidiary, or,
- power to govern the financial and operating policies of the other entity under other reasons.

Consolidation: Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Accounting for acquisition of an asset or group of assets that are not businesses
Acquisitions of controlling shareholdings in entities that are not businesses and in which there is no integrated set of activities conducted and assets are managed for the purpose of providing a return to investors, are accounted for as purchases of assets. The consideration paid to acquire such companies (typically entities holding development rights) is allocated to the identifiable assets and liabilities based on their relative fair values. Such a transaction does not give rise to goodwill.

Business combinations and goodwill: Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The consolidated financial statements include the following companies:

	Ownership	
	December 31, 2010	December 31, 2009
CJSC "CUN"	40,00%	40,00%
CJSC "SPb MFTC"	61,00%	61,00%
CJSC "AKTIV"	100,00%	100,00%
OJSC "SMU "Electronstroy"	99,24%	88,04%
LLC "Kamenka"	-	100,00%
LLC "Vertikal"	100,00%	100,00%
LLC "Daikar"	95,00%	-

RR'000	December 31, 2010			December 31, 2009		
	Total, assets	Equity	Net profit (loss) for the year	Total, assets	Equity	Net profit (loss) for the year
CJSC "CUN"	1 615 340	691 096	98 634	3 046 612	592 462	53 776
CJSC "SPb MFTC"	2 243 823	1 656 664	(38 600)	2 193 685	1 695 264	407 298
CJSC "AKTIV"	1 085 356	1 061 419	14 672	1 073 002	1 046 747	(37 680)
OJSC "SMU "Electronstroy"	128 659	92 948	6 901	112 150	86 045	1 043
LLC "Kamenka"	-	-	(628)	107 731	104 531	(1 005)
LLC "Vertikal"	8 930	8 928	(30)	8 966	8 957	(21)
LLC "Daikar"	830 754	497 498	(166)	-	-	-
Amounts excluded at consolidation	(3 537 484)	(1 626 935)	(85 671)	(5 643 346)	(1 623 682)	247 808
TOTAL	**2 375 378**	**2 381 618**	**(4 888)**	**898 800**	**1 910 324**	**671 219**

The share of LenSpetsSMU in the authorized capital of the company CJSC 'CUN" constitutes 40%, but the characteristics of relations between CJSC SSMO 'LenSpetsSMU' and CJSC 'CUN" allow considering strong control and, as a consequence, to include CJSC 'CUN' in the group of subsidiaries.

Detailed information on changes in the Group during the reporting period is presented in Note 5.

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture as a result of:
- power over 20-50 percent of the voting rights of the other entity, or
- representation at meetings of the board of directors or equivalent governing body of the subsidiary, or,
- power to influence the financial and operating policies of the other entity under other reasons.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Losses of an associate in excess of the Group's interest in that are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Associated companies accounted using equity method

	Ownership	
	December 31, 2010	December 31, 2009
CJSC "LenSpetsSMU-Reconstruction"	25,00%	25,00%
CJSC "Building materials factory "Etalon"	45,00%	25,00%
CJSC "Zatonskoye"	49,00%	49,00%
CJSC "ART-Business-TV"	50,00%	50,00%

Detailed information on changes in the Group's investments in associates is presented in Note 9.

(d) Functional and presentation currency

The individual financial statements of each entity in the Group are prepared in the currency of the primary economic environment in which the entity operates - its functional currency. The functional currency of the Group's companies is the national currency of the Russian Federation - the Russian rouble ('RR'). Transactions in other currencies are accounted for as foreign currency transactions.

The consolidated financial statements are presented in thousand of Russian roubles rounded to the nearest thousand.

(e) Financial Reporting in Hyperinflationary Economies

In the period starting from beginning of 90-ties till 31 December 2002 the Russian Federation met the criteria of the country with hyperinflationary economy in accordance with IAS 29 'Financial Reporting in Hyperinflationary Economies'. The inflation rate published by the State Committee of Statistic of the Russian Federation in 2002 was 15,1% (in 2001 and in 2000 – 18,8% and 20,2% respectively). Notwithstanding that the cumulative inflation rate over three years by the end of the year 2002 was less than 100%, it is recognized that the economy of the Russian Federation had conditions of the hyperinflationary economy till 31 December 2002.

In accordance with IAS 29 the financial statements of an enterprise that reports in the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, should be stated in terms of the measuring unit current at the date of financial statement. The Group applied IAS 29 by applying a general price index of the Russian Federation.

In accordance with the resolution of international bodies regulating accounting and financial reporting, from 1 of January, 2003 the Russian Federation does not meet the criteria of hyperinflationary economy, stated by IAS 29 "Financial Reporting in Hyperinflationary Economies".

Starting from 2003 and during the subsequent years the Company did not apply IAS 29 to the current accounting periods and content itself with representation of the aggregate influence of indexation on hyperinflation till 31 of December, 2002 on non-monetary items of the financial statements. Monetary items and the results of its activity will be recognized in the amounts of actual nominal amounts.

(f) Going concern

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

(g) Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

3. Significant accounting policies

The following significant accounting policies have been consistently applied by the Group in the preparation of the financial statements and are consistent with those used in the prior year.

(a) Intangible assets

Intangible assets include software, trademarks and licenses.

(i) Software

Software is capitalized expenses for acquisition and putting into operation of software less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

Purchased other intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Other subsequent expenditure related to capitalize intangible assets is capitalized only when it increases the future economic benefits embodied in the item. All other expenditure is recognized in the consolidated statement of comprehensive income as an expense as incurred.

(iv) Useful life and amortization of intangible assets

Intangible assets are amortized during their estimated useful lives and analyzed for impairment if there are any. For the purposes of consolidated financial statements the following estimated useful lives are used:

Software	1-10 years
Trade marks	10 years

(b) Fixed assets

Property, plant and equipment comprise mainly land, building and construction, equipment, vehicles, and other equipment such as office equipment and furniture.

(i) Property

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

At each financial statement date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.
If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss as other expense.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the statement of comprehensive income for the reporting period as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. For the purposes of consolidated financial statements the following estimated useful lives are used:

Building and construction	25-30 years
Machinery and equipment	3-5 years
Vehicles	5 years
Other assets	3–5 years

(c) Investment property

Investment property comprises objects of real estate which are held to earn rentals. Investment property is measured initially at its cost less any accumulated depreciation and impairment losses. The cost of self-constructed investment property is composed of cost of materials, labour and other expenses related directly to the object of investment property.
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 and the difference is recognized as an impairment loss in the statement of comprehensive income in the same period.

(d) Investments

Investments held-for-trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the consolidated statement of comprehensive income. Where the Group has the positive intent and ability to hold investments to maturity, they are stated at amortized cost less impairment losses. Other investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly to equity.

Investments in equity instruments that do not have a quoted market price are measured at cost. The fair value of investments held-for-trading and investments available-for-sale is their quoted bid price at the date of statement of financial position.

Investments held-for-trading and available-for-sale investments are recognized/ derecognized by the Group on the date it commits to purchase/sell the investments. Investments held-to-maturity are recognized/ derecognized on the day they are transferred to/by the Group.

(e) Inventories

For accounting of construction in progress the Group applies IAS 2 "Inventories".
Sales of construction objects are performed through execution of unit participation agreements (SPA) with future owners of housing (unit holders) or through executing agreements of preliminary sale (PSA).

Notwithstanding considerable differences in two schemes, risks associated with buildings being constructed are transferred to unit holders (buyers) after commissioning of a house by the State commission and registration of ownership rights over the housing being purchased by co-investors and shareholders. Till such moment housing and premises (including garages) under construction are accounted as Work in process in inventories.

Inventories are measured at the lower of cost and net realizable value.
The cost of inventories comprises costs of purchase, production costs and other related costs included in 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.

The Group'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 realized within twelve months after the reporting date.

(f) Accounts receivable and advances

Accounts receivable are stated at cost less provision for impairment. The amount of provision is recognized directly in the statement of comprehensive income.

Accounts receivable represent amounts due from individuals and legal entities to the Company under settlements for not redeemed flats.

Other accounts receivable include settlements under rent agreements, settlements for shares in garage-building cooperatives and other settlements.

Taxes recoverable comprise incoming value added tax (hereinafter – VAT) as well as debit balance for other taxes.

(g) Cash and cash equivalents

Cash and cash equivalents are stated at fair value of cash inflows. Cash and cash equivalents include cash on hands, cash in banks and highly liquid investments with maturity date up to ninety days from the date of issue not charged with any agreed liabilities.

(h) Share capital

Share capital is stated at historical cost. Contributions to share capital in the form of assets other than cash are recognized at fair value on the date of contribution. Profits and losses from sales of shares redeemed from shareholders are attributed to or written-off from the additional paid-in capital account.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

(i) Advances received on principal activity and accounts payable

In accordance with the share participation agreements investors-share holders invest in Holding LenSpetsSMU paying advances intended for housing building.
At construction finishing, objects of building commissioning by the state commission, registration of ownership rights for housing by the share holders and passing over the objects of building to the respective owners there performed writing-off of advances received to the financial result for each object.

Accounts payable are stated at cost.

(j) Loans and borrowings

Loans and borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequently to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of comprehensive income over the period of the borrowings. When borrowings are settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated statement of comprehensive income.

(k) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in 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 following temporary differences are not provided for: goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and that it is probable that the temporary difference will not reverse in the foreseeable future.

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.

(l) Recognition of operating income/expenses

The proceeds from sales of built housing and other operating income and expenses are recognized in the same period. In accordance with IFRS 18 "Revenue" the revenue is recognized when substantially all risks are transferred to customer; the amount of revenue can be measured reliably; the amount of related costs can be measured reliably; it is probable that economic benefits will flow to the company.
All income received and expenses incurred are shown in these financial statements separately net of VAT.

(m) Interest income and expense

Interest income and interest expense are recognized using accrual concept and are calculated using effective interest rate method.

(n) 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 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.

As at December 31, 2009 the official exchange rate was USD 30,2442 roubles. As at December 31, 2010 the official exchange rate was USD 30,4769 roubles.

4. Operating segments.

The Group operates in a single operating and geographic segment which is construction of premises. The revenues from these services constitute more than 90 percent of total revenues.
All significant assets, management and administrative facilities are located in Russia.

5. Interest in subsidiaries

Acquisition of controlling interest in LLC "Daikar".

In September 2010 the Group acquired 95,00% of share capital in LLC "Daikar". Fair value of the net assets of LLC"Daikar" at the acquisition date was RR'000 497 367. The transaction was classified as purchase of assets, and consideration paid by the Group was allocated to the individual identifiable assets and liabilities on the basis of their fair value at the date of purchase.

'RR'000	Fair value recognized on acquisition	Previous carrying value in the subsidiary
Property, plant and equipment, inc.:	62	62
Other fixed assets	*62*	*62*
Inventories, inc.:	566 411	67 378
Work in progress	*566 411*	*67 378*
Accounts receivable, inc.:	8 203	8 203
Advances to suppliers for the principal activities	*1 290*	*1 290*
Other accounts receivable	*4*	*4*
Taxes recoverable	*6 909*	*6 909*
Deferred tax asset	-	296
Cash and cash equivalents	808	808
	575 484	**76 747**
Long-term borrowings	352	352
Accounts payable and other liabilities	77 765	77 765
	78 117	**78 117**
Total identifiable net assets/liabilities at fair value	**497 367**	**(1 370)**
Non-controlling interest (5%)	(24 868)	
Total net assets acquired	472 499	
Translation difference	(7 523)	
Consideration settled in cash	**464 976**	

Cash flows on transaction:	RR'000
Net cash acquired in subsidiary	808
Consideration paid	(464 976)
	(464 168)

Acquisition of additional interest in OJSC "SMU "Electronstroy"

In 1 June 2010, the Group acquired an additional 11,2% interest of the voting shares of OJSC "SMU "Electronstroy", increasing its ownership interest to 99,24%. A cash consideration of RR'000 3 163 was paid to the non-controlling interest shareholders. The fair value of the net assets of OJSC "SMU "Electronstroy" at the acquisition date was RR'000 82 070 and the carrying value of the additional interest acquired was RR'000 9 191. The difference of RR'000 6 028 between the consideration and the carrying value of the interest acquired has been recognised in retained earnings within equity.

Disposal of subsidiary

The Group owned 100,00% in share capital of LLC "Kamenka" until 1 March 2010, when the investment was sold to the 3rd parties.

	RR'000
Non-current assets	21 534
Current assets	78
Non-current liabilities	-
Current liabilities	(3 204)
Net assets	**18 408**
Fair value of consideration	145 024
Profit recognised in the consolidated statement of comprehensive income	**126 616**
Translation difference	(2 925)
Cash proceeds received from disposal of controlling interest	142 099
Cash of disposed subsidiary	(62)
Net cash related to disposal of subsidiary	**142 037**

6. Fixed assets

RR'000	Land	Buildings and facilities	Machinery and equipment	Vehicles	Other FA	Construction in progress	Total
Cost							
At December 31, 2009	30 693	905 243	756 372	36 872	22 749	843	1 752 772
Additions	-	300 052	86 376	10 402	4 255	1 566	402 651
Disposals	(21 505)	(723 162)	(91 577)	(4 868)	(670)	(843)	(842 625)
At December 31, 2010	**9 188**	**482 133**	**751 171**	**42 406**	**26 334**	**1 566**	**1 312 798**
Depreciation							
At December 31, 2009	-	(152 619)	(349 684)	(21 735)	(13 345)	-	(537 383)
Depreciation charge for the period	-	(42 312)	(137 770)	(7 143)	(5 361)	-	(192 586)
Depreciation on disposals	-	64 631	55 426	4 126	559	-	124 742
At December 31, 2010	-	**(130 300)**	**(432 028)**	**(24 752)**	**(18 147)**	**-**	**(605 227)**
Net book value							
At December 31, 2009	**30 693**	**752 624**	**406 688**	**15 137**	**9 404**	**843**	**1 215 389**
At December 31, 2010	**9 188**	**351 833**	**319 143**	**17 654**	**8 187**	**1 566**	**707 571**
Cost							
At December 31, 2008							
Additions	79 618	722 634	594 748	45 100	33 831	3 610	1 479 541
Disposals	22	412 149	190 554	601	943	843	605 112
	(48 947)	(229 540)	(28 930)	(8 829)	(12 025)	(3 610)	(331 881)
At December 31, 2009							
	30 693	**905 243**	**756 372**	**36 872**	**22 749**	**843**	**1 752 772**
Depreciation							
At December 31, 2008							
Depreciation charge for the period	-	(119 720)	(249 557)	(20 278)	(18 622)	-	(408 177)
Depreciation on disposals	-	(64 207)	(113 512)	(8 360)	(3 382)	-	(189 461)
	-	31 308	13 385	6 903	8 659	-	60 255
At December 31, 2009							
	-	**(152 619)**	**(349 684)**	**(21 735)**	**(13 345)**	**-**	**(537 383)**
Net book value							
At December 31, 2008							
At December 31, 2009	**79 618**	**602 914**	**345 191**	**24 822**	**15 209**	**3 610**	**1 071 364**
	30 693	**752 624**	**406 688**	**15 137**	**9 404**	**843**	**1 215 389**

7. Investment property

RR'000	As at December 31, 2010	As at December 31, 2009
Cost		
At the beginning of accounting period	**318 792**	**128 907**
Additions	347 588	235 562
Disposals	(19 421)	(45 677)
At the end of accounting period	**646 959**	**318 792**
Depreciation		
At the beginning of the accounting period	**(10 277)**	**(7 673)**
Depreciation charge for the period	(21 334)	(5 449)
Depreciation on disposals	3 456	2 845
At the end of the accounting period	**(28 155)**	**(10 277)**
Net book value at the beginning of accounting period	**308 515**	**121 234**
Net book value at the end of accounting period	**618 804**	**308 515**

8. Intangible Assets

"RR'000	Licenses	Software	Trademarks	Other intangible assets	TOTAL
Cost					
At December 31, 2009	**254**	**8 037**	**511**	**37**	**8 839**
Additions	-	382	112	-	494
Disposals	(254)	(537)	-	-	(791)
At December 31, 2010	**-**	**7 882**	**623**	**37**	**8 542**
Amortization					
At December 31,2009	**(102)**	**(5 512)**	**(222)**	**(6)**	**(5 842)**
Amortization charge for period	(97)	(1 229)	(69)	(5)	(1 400)
Amortization on disposals	199	537	-	-	736
At December 31, 2010	**-**	**(6 204)**	**(291)**	**(11)**	**(6 506)**
Net book value					
At December 31, 2009	**152**	**2 525**	**289**	**31**	**2 997**
At December 31, 2010	**-**	**1 678**	**332**	**26**	**2 036**
Cost					
At December 31, 2008	**300**	**7 783**	**777**	**127**	**8 987**
Additions	3	1 026	28	-	1 057
Disposals	(49)	(772)	(294)	(90)	(1 205)
At December 31, 2009	**254**	**8 037**	**511**	**37**	**8 839**
Amortisation					
At December 31,2008	**(91)**	**(3 877)**	**(200)**	**(22)**	**(4 190)**
Amortisation charge for period	(54)	(2 407)	(81)	(7)	(2 549)
Amortisation on disposals	43	772	59	23	897
At December 31, 2009	**(102)**	**(5 512)**	**(222)**	**(6)**	**(5 842)**
Net book value					
At December 31, 2008	**209**	**3 906**	**577**	**105**	**4 797**
At December 31, 2009	**152**	**2 525**	**289**	**31**	**2997**

9. Investments in Associates

Information about changes in investments in associated companies in the reporting period:

RR'000	As at December 31, 2010	12 months ended December 31, 2010				As at December 31, 2009
	Investment in associated companies	Acquisition	Share of net profit	Impairment of investments	Dividends received	Investment in associated companies
CJSC "LenSpetsSMU-Reconstruction"	30 155	-	4 271	-	-	25 884
CJSC "Building materials factory "Etalon"	48 560	91 000	4 795	(72 050)	-	24 815
CJSC "Zatonskoye"	1 721 174	-	(619)	-	-	1 721 793
CJSC "ART-Business-TV"	0	-	0	-	-	0
Total	**1 799 889**	**91 000**	**8 447**	**(72 050)**	**-**	**1 772 492**

<u>Acquisition of additional interest in CJSC "Building materials factory "Etalon"</u>

In May 2010, the Group acquired an additional 20,00% interest of the voting shares of CJSC "Building materials factory "Etalon" increasing its ownership interest to 45,00%. A cash consideration of RR'000 91 000 was paid to other shareholders. The fair value of the net assets of CJSC "Building materials factory "Etalon" at the acquisition date was RR'000 94 748 and the carrying value of the additional interest acquired was RR'000 18 950. The difference of RR'000 72 050 between the consideration and the carrying value of the interest acquired has been recognized in the amount of investment in associate. At the reporting date goodwill impairment of 'RR'000 72 050 has been recognized in the consolidated statement of comprehensive income in "Other operating expenses".

Information about assets and liabilities as at statement date, equity, revenue and profit / (losses) of associated companies:

RR'000	As at December 31, 2010			As at December 31, 2009		
	Total assets	Total liabilities	Equity	Total assets	Total liabilities	Equity
CJSC "LenSpetsSMU-Reconstruction"	1 021 896	901 278	120 618	253 854	150 321	103 533
CJSC "Building materials factory "Etalon"	115 649	7 738	107 911	125 040	25 777	99 263
CJSC "Zatonskoye"	3 490 343	3 493 018	(2 675)	1 557 879	1 559 104	(1 225)
CJSC "ART-Business-TV"	43 357	43 869	(512)	-	-	-

RR'000	12 months ended December 31, 2010		12 months ended December 31, 2009	
	Revenue	Net profit / (losses)	Revenue	Net profit / (losses)
CJSC "LenSpetsSMU-Reconstruction"	1 265 821	17 085	852 634	63 286
CJSC "Building materials factory "Etalon"	140 973	8 648	148 316	18 716
CJSC "Zatonskoye"	5 873	(1 450)	8 184	(1 263)
CJSC "ART-Business-TV"	0	(25)	-	-

10. Long-term financial investments

RR'000	As at December 31, 2010	As at December 31, 2009
Loans given	530 497	37 907
Bonds	1 081 105	-
Long-term equity investments	552	554
Impairment provision for financial investments	(9 921)	(9 754)
Total Long-term financial investments	**1 602 233**	**28 707**

Loans given to legal entities are denominated in Russian roubles and are stated at amortized cost. The effective interest rate as at December 31, 2009 was 12.96% and as at December 31, 2010 was 11.92% correspondingly.

11. Deferred taxation

Deferred corporate income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred corporate income taxes relate to the same fiscal authority. Parent company and subsidiaries must prepare tax reports separately. The gross movement on the deferred corporate income tax account is as follows:

RR'000	As at December 31, 2010
Deferred tax asset at the beginning of the period	125 284
Deferred tax liability at the beginning of the period	(605 227)
Net deferred tax at the beginning of the period	(479 943)
Tax included in the Statement of comprehensive income (Note 28)	180 135
Net deferred tax at the end of the period	(299 808)
Including:	
Deferred tax asset	**157 128**
Deferred tax liability	**(456 936)**

The analysis of deferred tax assets and liabilities:

RR'000	As at December 31, 2010	As at December 31, 2009
Fixed assets and intangible assets	37 868	103 056
Financial assets	11 380	2 002
Loans given	20 986	-
Bank and corporate borrowings	13 532	270 639
Inventories	1 128 917	1 640 848
Trade accounts receivable	103 542	126 595
Trade accounts payable	1 802 679	60 108
Prepaid expenses	4 671	22 408
Reserves	1 133	1 569
Other	-	29
Deferred tax asset:	**3 124 708**	**2 227 254**
Set off of tax*	(2 967 580)	(2 101 970)
Net tax assets	**157 128**	**125 284**

RR'000	As at December 31, 2010	As at December 31, 2009
Fixed assets and intangible assets	(382)	(12)
Financial assets	(1 078)	(34 953)
Inventories	(20 908)	(123)
Trade accounts receivable	-	(112 488)
Bank and corporate borrowings	(17 202)	-
Trade accounts payable	(2 905 381)	(443 896)
Advances received	(98 424)	(2 115 725)
Other current assets	(381 141)	-
Deferred tax liability:	**(3 424 516)**	**(2 707 197)**
Set off of tax*	2 967 580	2 101 970
Net tax liability	**(456 936)**	**(605 227)**
Net deferred tax at the end of the period	**(299 808)**	**(479 943)**

* *Offset of deferred tax assets and liabilities are eliminated in the consolidation deferred tax balances recorded on a net basis in each of the Group companies.*

12. Inventories

RR'000	As at December 31, 2010	As at December 31, 2009
Construction in progress of apartment building objects	8 953 135	9 774 620
Construction in progress of garage building objects	463 952	586 330
Total construction in progress	**9 417 087**	**10 360 950**
Own apartments	8 056 526	10 197 182
Built-in premises (non-residential)	2 796 451	2 001 941
Secondary market apartments	23 506	29 116
Concrete and reinforced concrete items	5 874	2 815
Food products	166	99
Other	862	1 054
Provision for impairment of goods	(6 691)	(86 051)
Total finished products and goods for re-sale	**10 876 694**	**12 146 156**
Concrete and reinforced concrete items	20 233	21 475
Building materials	12 847	5 801
Auxiliary materials for the basic production	6 195	4 934
Metal-roll (armature, angle bars, metal bars, etc.)	3 433	360
Fuel	1 658	1 096
Inventories and utilities	1 636	1 846
Special clothing	538	334
Cement	458	772
Other inventories	1 047	1 469
Provision for impairment of materials	(19 463)	(356)
Total raw materials	**28 582**	**37 731**
Total inventories	**20 322 363**	**22 544 837**

The construction in progress includes apartments under construction, infrastructure objects and producers' goods. Objects of construction in progress in total amount of 9 417 087 thousand roubles are listed below:

RR'000	Housing construction objects	Garage building objects	Total	Housing construction objects	Garage building objects	Total
Yubileinyi Kvartal	3 529 826	375 497	3 905 323	5 269 541	565 256	5 834 797
Orbita	2 686 888	37 948	2 724 836	1 540 719	20 925	1 561 644
Talisman	602 006	4 650	606 656	368 291	-	368 291
HC Moscow, Starokrymskaya, 13	581 646	-	581 646	-	-	-
Lastochkino Gnezdo	443 949	-	443 949	-	-	-
Etyud	285 221	44 013	329 234	-	-	-
Prestige	293 427	1 844	295 271	-	-	-
AURA	123 231	-	123 231	933 138	-	933 138
Technopark	90 854	-	90 854	87 486	-	87 486
HC "Yuzhniy "Raduga"	-	-	-	495 356	-	495 356
Dom na Optikov	-	-	-	317 116	-	317 116
Infrastructure objects	248 737	-	248 737	459 402	-	459 402
Other	67 350	-	67 350	303 571	149	303 720
Total	**8 953 135**	**463 952**	**9 417 087**	**9 774 620**	**586 330**	**10 360 950**

Object comparison shows that the largest non-completed objects for 12 months period of 2010 have become housing complex "Yubileinyi Kvartal" and housing complex "Orbita".

13. Short-term investments

RR'000	As at December 31, 2010	As at December 31, 2009
Financial assets held-for-trading	1 601 740	1 546 574
Loans given to legal entities	55 231	152 608
Total short-term investments	**1 656 971**	**1 699 182**

Property shares in garage-building cooperatives are booked within financial statements as financial assets held-for-trading. These shares are stated at cost which is close to their fair value.

14. Accounts receivable and advances

RR'000	As at December 31, 2010	As at December 31, 2009
Trade accounts receivable	649 718	1 073 752
Accounts receivable accompanied by promissory notes	292 339	247 524
Advances to suppliers for the principal activities	2 834 654	1 960 191
VAT recoverable	436 393	852 177
Other taxes recoverable	1 649	1 194
Other receivables	610 828	368 248
Finance lease receivables	-	52 346
Provision for bad debts	(165 419)	(236 084)
Total accounts receivable and advances	**4 660 162**	**4 319 348**

Accounts receivable for the principal activities occur in sales of flats built and works performed.
The major debtors for advances given are CJSC "Sankt-Petersburgskie electricheskie seti" (settlements for electricity), GUP "Vodokanal" (settlements for connection to water supplying networks), CJSC "Novator" (building and assembly works), LLC "LSS-story" (investments in construction), CJSC "VAGONMASH" (advance for land plot).

15. Other current assets

Other current assets include prepaid expenses. Prepaid expenses constitute advances paid in the current period which relate to future periods and include the following: insurance and other expenses.
Prepaid expenses have the following structure:

RR'000	As at December 31, 2010	As at December 31, 2009
Insurance	2 378	2 726
Other	18	342
Total other current assets	**2 396**	**3 068**

16. Cash and cash equivalents

RR'000	As at December 31, 2010	As at December 31, 2009
Cash in hand	2 844	3 741
Cash in bank — RR accounts	73 461	107 340
Cash in bank — FCY accounts	534	333
Short-term bank deposits	2 645 497	2 046 341
Other cash and cash equivalents	28 950	-
Total cash and cash equivalents	**2 751 286**	**2 157 755**

17. Share capital

As at December 31, 2010 share capital of the Company included 1 000 shares of nominal value of 200 roubles per share.

The shareholders of the Company as at As at December 31, 2010 are listed below:

Shareholder	Amount of shares	Share, %	Nominal value	Sum, adjusted to inflation
CJSC " Managerial company-Construction holding "Etalon-LenSpetsSMU"	985	98,5%	197	1 218
Other	15	1,5%	3	19
	1 000	**100%**	**200**	**1 237**

Dividends

On the results of the 12 month period 2009 and 12 month period 2010 the dividends were not declared and paid by parent company.

18. Loans and borrowings

RR'000	As at December 31, 2010	As at December 31, 2009
Long-term borrowings		
Bank borrowings (principal amount)	969 598	460 911
Corporate borrowings (principal amount)	6 792 482	2 212 540
	7 762 080	**2 673 451**
Short-term borrowings		
Bank borrowings (principal amount)	-	2 085 237
Bank borrowings (interest accrued)	208	10 916
Corporate borrowings (principal amount)	1 305 625	1 266 772
Corporate borrowings (interest accrued)	96 042	42 452
	1 401 875	**3 405 377**
Total borrowings:	**9 163 955**	**6 078 828**

Short-term bank loans comprise a bank loan obtained from OJSC 'Alfa-Bank' in amount RR'000 369 598 and from OJSC 'Bank ZENIT' in amount RR'000 600 000.

Bank loans are secured by a mortgage with a carrying amount of RR'000 164 673 (mortgage value RR'000 373 184)
Borrowings are unsecured.

(a) Bank borrowings

RR'000	As at December 31, 2010
Balance at the beginning of the year (principal amount), based on undiscounted payments	**2 496 447**
Received (principal amount)	5 408 474
- *including foreign exchange difference*	*189 055*
Repaid (principal amount)	(6 931 927)
- *including foreign exchange difference*	*(125 320)*
Balance at the end of the year (principal amount)	**972 994**
Balance at the beginning of the year (interest)	**10 916**
Charging of an expense (interest)	136 469
Capitalized (interest)	*5 515*
-including foreign exchange difference	*197*
Interest paid	(152 710)
-including foreign exchange difference	*(305)*
Balance at the end of the year (interest)	**190**
Balance at the end of the year (principal amount) in the following currencies	**972 994**
- Russian roubles borrowings	600 000
- US dollars borrowings	372 994
Total, borrowings (principal amount) at the end of year based on undiscounted payments	**972 994**
Payables within 12 months after the financial statement date (principal amount) at the end of the year	-
Payables within 2 years after the financial statement date at the end of the year	-
Payables within 3 years after the financial statement date at the end of the year	372 994
Payables within 4 years after the financial statement date at the end of the year	600 000
Payables within 5 years after the financial statement date at the end of the year	-
Total, borrowings (interest) at the end of the year	**190**
Payables within 12 months after the financial statement date (interest) at the end of the year	190
Total, payables (principal amount and interest) at the end of the year based on undiscounted payments	**973 184**
Total, payables (principal amount and interest) at the end of the year at the amortized cost	**969 806**
Including interest	208

(b) Corporate borrowings

Long-term borrowing comprise bond issues supported by OJSC 'Alfa-Bank' and OJSC 'Promsvyabank' acting as underwriters in the total amount of RR'000 2 281 108, borrowings from 'North Star B.V. in amount RR'000 4 511 067 and other borrowings in total amount RR'000 307.

Short-term borrowing comprise bond issues supported by OJSC 'Alfa-Bank' and OJSC 'Promsvyabank' acting as underwriters in the total amount of RR'000 1 294 575, borrowings from LLC 'Stroyservice' in amount of RR'000 6 200, borrowings from OJSC "Etalon-Invest" in amount of RR'000 4 250, and other borrowings in the total amount of RR'000 600.

'RR'000	As at December 31, 2010
Balance at the beginning of the year (principal amount) based on undiscounted payments	**3 339 390**
Received (principal amount)	6 706 225
-including foreign exchange difference	*32 835*
Offset of bonds	401 579
Borrowings of acquired companies	4 559
Repaid (principal amount)	(2 268 861)
-including foreign exchange difference	*(117 305)*
Balance at the end of the year (principal amount)	**8 182 892**
Balance at the beginning of the year (interest), transient	**42 452**
Charged to expenses (interest)	468 398
Capitalized (interest)	228 961
-including foreign exchange difference	*30*
Borrowings of acquired companies	45
Paid up (interest)	(646 239)
Other	(80)
Balance at the end of the year (interest)	**93 537**
Balance at the end of the year (principal amount) in the following currencies	**8 182 892**
- Russian roubles borrowings	3 611 357
- US dollars borrowings	4 571 535
Total, balance at the end of the year (principal amount and interest) based on undiscounted payments	**8 276 429**
Payables within 12 months after the financial statement date (principal amount) at the end of the year	1 311 357
Payables within 12 months after the financial statement date (interest) at the end of the year	93 537
Payables within 2 years after the financial statement date at the end of the year	1 700 000
Payables within 3 years after the financial statement date at the end of the year	2 520 045
Payables within 4 years after the financial statement date at the end of the year	1 554 322
Payables within 5 years after the financial statement date at the end of the year	1 097 168
Total, payables (principal amount and interest) at the end of the year at the amortized (balance) cost	**8 194 149**

19. Advances received from the principal activities

Advances received are represented by the prepayment received by the Group from buyers of construction objects.

Advances are transferred to the income as soon as the construction objects are accepted by the state commission and only when the following criteria are fulfilled: transfer to the buyer all significant risks and rewards, the amount of revenue and related cost can be measured reliably, the probability that the economic benefits associated with the transaction will flow to the Group is high.

20. Accounts payable and other liabilities

'RR'000	As at December 31, 2010	As at December 31, 2009
Current liabilities		
Accounts payable — trade	1 332 996	1 419 305
Salary payable	50 822	41 243
VAT payable	38 752	35 109
Other taxes payable	24 733	19 068
Accrued provisions	1 220 234	2 526 988
Short term finance lease liabilities	-	30 022
Other payables	294 082	674 755
Total accounts payable	**2 961 619**	**4 746 490**

Accrued provisions in amount of ‘RR’000 1 220 234 are obligations to perform certain works after objects are passed over to customers.

Short – term trade accounts payable in amount of ‘RR’000 1 332 996 includes settlements with suppliers for raw materials, inventories and construction services.

21. Revenues

‘RR’000	12 months ended December 31, 2010	12 months ended December 31, 2009
Own flats	13 364 725	14 182 355
Built-in premises (non residential)	1 623 490	2 002 135
Commissioning of construction objects	1 049 886	868 824
Building and assembly works	709 395	417 636
Rent	252 100	169 733
Concrete production	226 479	189 201
Agent services	171 115	36 195
Ferroconcrete production	87 550	75 252
Auto services sales	55 183	48 359
Secondary market apartments	24 198	11 000
Sales of other works and services	136 390	117 348
Other products, goods, materials	8 013	51 780
Total revenues	**17 708 524**	**18 169 818**

22. Cost of sales

‘‘RR’000	12 months ended December 31, 2010	12 months ended December 31, 2009
Own flats	7 158 074	7 827 346
Built-in premises (non residential)	1 462 315	1 577 262
Commissioning of objects of building	925 390	582 973
Building and assembly works	557 188	343 119
Other products, goods, materials	387 689	291 600
Depreciation of fixed assets	143 612	137 936
Salary and other personnel expenses	152 847	128 399
Maintenance expenses	21 936	18 211
Secondary market apartments	16 226	5 652
Repair and maintenance	9 207	17 060
Depreciation of investment property	16 545	5 559
Depreciation of intangible assets	18	164
Other services	140 191	144 163
Total cost of sales	**10 991 238**	**11 079 444**

23. 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.

‘‘RR’000	12 months ended December 31, 2010	12 months ended December 31, 2009
Revenue from long-term construction contracts in the reporting period	988 660	1 069 891
Total costs incurred under long-term construction contracts which are in process at the end of reporting period	(975 727)	(1 045 917)
Total revenue recognized under long-term construction contracts which are in process at the end of reporting period	12 933	23 974
Gross amount due from customers for the long-term construction contracts	210 764	617 592

24. Selling expenses

'RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Advertisement and marketing	179 386	143 576
Agency services	619	3 121
Other	137	333
Total selling expenses	**180 142**	**147 030**

25. General and administrative expenses

''RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Wages and other payments to personnel	626 125	448 587
Management services	267 402	180 208
Maintenance services	31 678	20 308
Depreciation of fixed assets	20 349	7 025
Security service	15 624	11 878
Consulting, legal, audit services	11 865	18 757
Rent	6 473	7 461
Auto services expenses	4 188	2 729
Depreciation of intangible assets	1 381	2 351
Other	40 281	26 410
Total general and administrative expenses	**1 025 366**	**725 714**

26. Other operating expenses (net)

'RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Net income from sale of financial assets	55 486	248 592
Compensation of other operations costs	(10 653)	(33 201)
Income from sale and other disposal of tangible assets	(49 654)	(4 264)
Income from sale of subsidiaries	126 616	-
Income / (expenses) from accounts receivable / (payable) write-off	6 932	(8 470)
Provision for impairment of materials	(19 136)	4 330
Provision for ongoing court litigations	(41 100)	(21 195)
Change in bad debts provision	61 011	(185 739)
Provision for impairment of investments	(72 217)	(9 374)
Provision for impairment of goods	26 144	(74 222)
Expenses on social objects maintenance	(8 020)	(7 950)
Fees, fines, forfeits receivable	31 157	63 327
Fees, fines, forfeits payable	(665)	(2 115)
Warranties	(9 898)	(12 402)
Bank commissions	(101 173)	(90 350)
Social expenses and other payments to employees	(11 940)	(17 572)
SPA settlements after commissioning of the house by State commission	(24 593)	(10 138)
Losses of the previous years	(50 122)	(23 114)
Charity	(4 867)	(4 114)
Unused provisions for carried over works written off	102 755	67 494
Reimbursement of expenses Golden Ring	-	(83 299)
Other income / (expenses)	(12 878)	(7 054)
Total other operating income	**(6 815)**	**(210 830)**

27. Net financial expenses

''RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Interest expense	(604 676)	(803 464)
Interest income	103 991	137 720
Net foreign exchange loss	(20 570)	(255 533)
Change in fair value of financial assets	28 753	(419 268)
Expenses from finance lease	(1 991)	(3 507)
Total net financial expenses	**(494 493)**	**(1 344 052)**

28. Income tax

The parent company and its subsidiaries separately submit tax returns and pay taxes.

(a) Income tax expense

'RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Current income tax expense	1 309 332	717 688
(Income) / Expenses from origination and reversal of temporary differences	(180 135)	292 886
Total income tax expense	**1 129 197**	**1 010 574**

(b) Reconciliation of accounting profit before income tax to income tax expense

'RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Profit before income tax	4 907 052	4 586 869
Theoretical tax charge at the applicable statutory rate on reporting date	981 411	917 374
Adjustments for items of income and expenses which are not assessable or deductible for taxation purposes	147 786	93 200
Total income tax expense	**1 129 197**	**1 010 574**

29. Related-party transactions

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

'RR'000	12 months ended December 31, 2010	12 months ended December 31, 2009
Key management personnel	100 967	69 453

As at reporting date the Group had the following balances on operations with related parties:

'RR'000	Associated companies		Jointly controlled entities	
	As at December 31, 2010	As at December 31, 2009	As at December 31, 2010	As at December 31, 2009
Long-term loans given				
Loans given (the main debt)	-	-	497 200	31 967
Short-term loans given				
Loans given (the main debt)	-	-	33 147	125 506
Loans given (interest)	-	-	3 261	11 334
Short-term accounts receivable and advances given				
Trade accounts receivable	33 597	13 801	171 332	168 799
Accounts receivable accompanied by promissory notes	-	-	216 296	151 730
Advances to suppliers for the principal activities	1 255 902	496 087	280 971	402 534
Other receivables	2	3 433	453 192	197 766
Short-term borrowings				
Corporate borrowings (principal amount)	-	-	4 850	600
Corporate borrowings (interest accrued)	-	-	52	3
Short-term accounts payable				
Advances received	-	-	5 094	48 676
Trade accounts payable	188 369	197 776	660 023	714 132
Other accounts payable	-	2 500	13 922	4 898
Accounts payable accompanied by promissory notes	-	20 529	-	103 576

For the reporting period Group provided the following operations with related parties:

‘RR’000	Associated companies		Jointly controlled entities	
	12 months ended December 31, 2010	12 months ended December 31, 2009	12 months ended December 31, 2010	12 months ended December 31, 2009
Revenues	194 493	171 309	444 389	334 371
Cost of sales	(63 944)	(11 846)	(308 887)	(323 587)
Selling expenses	-	-	(51 939)	(10 116)
General and administrative expenses	(15 263)	-	(276 055)	(188 967)
Other income	147	397	118 119	18 017
Other expenses	(16 052)	(50)	(12 065)	(7 556)

30. Financial risk management

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

The Group’s activities expose it to credit risk, liquidity risk, foreign currency risk and interest rate risk. The risk management policies employed by the Group 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 Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of financial assets in the consolidated 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 Group considers bad and doubtful debt provision is adequate for compensation of prospective losses resulting from doubtful debts repayment failure.

The Group 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 Group. 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 Group 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.

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

December 31, 2010 ‘RR’000	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings	1 405 084	7 844 529	-	9 249 613
Trade and other payables	2 898 134	-	-	2 898 134
Total	**4 303 218**	**7 844 529**	**-**	**12 147 747**

December 31, 2009 ‘RR’000	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings	2 904 703	2 984 502	-	5 889 205
Trade and other payables	4 692 313	-	-	4 692 313
Total	**7 597 016**	**2 984 502**	**-**	**10 581 518**

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

At December 31, 2010, if the Russian rouble weakened against US dollar and euro by 15% with all other variables held constant, the Group's profit before taxation would reduce at 'RR'000 400 026, mainly due to foreign exchange differences arising on loans, borrowings and investments nominated in foreign currency.

The major portion of costs and investments of the Group is nominated in Russian roubles and therefore not exposed to foreign currency risk. The Group does not export its production. Import of equipment and fixtures is relatively insignificant being compared to the total purchases. The Group 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 Group 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 Group 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 Group's exposure to interest rate risk is reduced to minimum.

Capital risk management

The Group's objectives when managing its capital are to safeguard the Group'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 Group'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 Group 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 Group 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.

31. Industry risk management

The Group is a member of the holding Closed Joint Stock Company "Management Company of Etalon-LenSpetsSMU Holding Company" (hereinafter – Holding "Etalon-LenSpetsSMU") and operates in St. Petersburg real estate market. The core business of the Group is rendering construction services, which include implementing all stages of the investment and construction process. Industry risks of the Group include the following:

- The risk of reduction of demand in the real estate market. The Group is engaged in real estate development and manages its investment and construction projects in the real estate market of St. Petersburg. As a result of the global economic crisis the demand for both commercial and living premises in St. Petersburg has been continuously falling. To minimize the risk the Group 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 Group's core business. To minimize the existing risk the Group 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 Group in its activities. The Group 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 Group to avoid both abrupt change in purchase prices and lack of supply in construction materials.

32. 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 effects could be significant.

Guarantees of liabilities issued

As at December 31, 2010 the Group's companies issued guarantees amounting to '000 RR 501 616 (2009 – '000 RR 3 411 183).

33. Events subsequent to the financial statement date

In February 2011:

- the amount borrowed from OJSC 'Alfa-Bank' increased by euro'000 10 658 to total amount euro'000 19 906.
- the Group paid USD'000 3 413 interest on loan borrowed from North Star SA.
- The Group paid 3-d coupon of CJSC 'SSMO LenSpetsSMU' bonds BO-02 series (4B02-02-17664-J dated April 12, 2010) in amount of 'RR'000 72 300.

In March 2011 Group paid 5-d coupon of CJSC 'SSMO LenSpetsSMU' bonds 01 series (4-01-17664-J dated November 12, 2009) in amount of 'RR'000 63 120 .