Original in Russian language

Group of companies "LenSpetsSMU"

Consolidated Interim Financial Statements Prepared under IFRS

For the Six Months Ended June 30, 2013

Contents

	Notes	As at June 30, 2013 'RR'000	As at December 31, 2012 'RR'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	1 582 477	1 596 429
Investment property	7	638 702	232 692
Intangible assets	8	2 335	2 887
Investments in associates	9	2 840 097	2 248 328
Long-term financial investments	10	216 332	15 142
Accounts receivable and prepayments	14	22 475	16 851
Deferred tax assets	11	99 106	109 598
		5 401 524	**4 221 927**
Current assets			
Inventories	12	23 310 610	20 648 794
Short-term financial investments	13	6 310 314	9 492 645
Accounts receivable and prepayments	14	19 532 422	13 228 843
Income tax receivable		212 577	228 310
Other current assets	15	26 038	35 607
Cash and cash equivalents	16	3 118 461	4 869 418
		52 510 422	**48 503 617**
Total assets		**57 911 946**	**52 725 544**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	2 101 237	2 101 237
Retained earnings		22 492 041	19 371 435
Equity attributable to owners of the parent		24 593 278	21 472 672
Non-controlling interests		1 525 274	1 460 670
Total equity		**26 118 552**	**22 933 342**
Non-current liabilities			
Loans and borrowings	18	8 480 410	11 860 470
Advances received on principal activity	19	3 041	-
Accounts payable and other liabilities	20	158 566	110 663
Deferred tax liabilities	11	417 416	206 702
		9 059 433	**12 177 835**
Current liabilities			
Loans and borrowings	18	1 550 224	2 855 237
Advances received on principal activity	19	13 953 045	11 513 969
Accounts payable and other liabilities	20	6 923 950	2 686 668
Provisions	21	305 168	549 341
Income tax payable		1 574	9 152
		22 733 961	**17 614 367**
Total equity and liabilities		**57 911 946**	**52 725 544**

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

General Director Scherbina G. Ph.

Chief Accountant Ushakova E. V.

26 August, 2013

	Notes	6 months ended June 30, 2013 'RR'000	6 months ended June 30, 2012 'RR'000
Revenue	22	9 921 061	10 788 493
Cost of sales	23	(5 570 263)	(6 817 462)
Gross profit		**4 350 798**	**3 971 031**
Selling expenses	25	(125 295)	(123 409)
General and administrative expenses	26	(884 314)	(728 154)
Taxes, other than income tax		(92 670)	(84 688)
Other operating income/(expenses), net	27	62 358	(12 729)
Operating profit		**3 310 877**	**3 022 051**
Share in profit of associates	9	591 769	84 122
Net finance income/(expenses)	28	(18 720)	55 155
Profit before income tax		**3 883 926**	**3 161 328**
Income tax	29	(698 716)	(641 801)
Net profit for the period		**3 185 210**	**2 519 527**
Total comprehensive income for the period		**3 185 210**	**2 519 527**
<u>Profit attributable to:</u>			
Equity holders of the parent		**3 120 606**	**2 403 486**
Non-controlling interests		**64 604**	**116 041**
<u>Total comprehensive income attributable to:</u>			
Equity holders of the parent		**3 120 606**	**2 403 486**
Non-controlling interests		**64 604**	**116 041**
Basic and diluted earnings per share	17	**0,30**	**0.23**

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General Director Scherbina G. Ph.

Chief Accountant Ushakova E. V.

26 August, 2013

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	Notes	6 months ended June 30, 2013 'RR'000	6 months ended June 30, 2012 'RR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		3 883 926	3 161 328
Adjustments for:		**(526 229)**	**(77 069)**
Depreciation and amortization	23,26	113 899	80 117
Profit from sale of financial assets	27	(27 870)	(20 642)
Provision for impairment of inventories	27	(3 270)	1 854
Provision for bad and doubtful accounts receivable	27	(14 613)	(2 743)
Provision for ongoing court litigations	27	-	8 109
Foreign exchange loss	28	291 223	117 685
Interest expense	28	52 460	61 357
Interest income	28	(326 037)	(235 099)
Changes in amortized cost of financial assets	28	1 074	902
Share in profit of associates	9	(591 769)	(84 122)
Profit on disposal of non-current assets		(27 997)	(4 487)
Other income and expenses		6 671	-
Operating profit before changes in working capital		**3 357 697**	**3 084 259**
Increase in trade accounts receivables and prepayments		(6 338 967)	(2 936 133)
(Increase) / decrease in inventories		(2 080 538)	1 558 447
Increase in trade payables and advances received		5 778 130	1 455 732
Changes in other assets and liabilities		9 569	6 325
Cash generated from/(used in) operations		**725 891**	**3 168 630**
Income tax paid		**(468 098)**	**(676 612)**
Net cash from operating activities		**257 793**	**2 492 018**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(54 269)	(224 721)
Proceeds from sale of property, plant and equipment and intangible assets		44 643	7 607
Sale of securities and other financial assets		285 558	174 234
Repayment of bank deposits	13	3 956 845	(1 025 000)
Acquisition of subsidiary net of cash acquired	4	(382 523)	-
Disbursement of loans		(5 955)	(203 000)
Repayments of loans		5 394	214 641
Interest received		315 724	215 512
Net cash from / (used in) investing activities		**4 165 417**	**(840 727)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		658 207	1 255 107
Repayment of borrowings		(6 178 687)	(1 564 805)
Interest paid		(731 048)	(529 432)
Net cash flows used in financing activities		**(6 251 528)**	**(839 130)**
Effect of exchange rate changes on cash and cash equivalents		77 361	**14 335**
Net (decrease) / increase in cash and cash equivalents		**(1 750 957)**	**826 496**
Cash and cash equivalents at the beginning of the period		**4 869 418**	**3 321 402**
Cash and cash equivalents at the end of the period		**3 118 461**	**4 147 898**

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

General Director Scherbina G. Ph.

Chief Accountant Ushakova E. V.

26 August, 2013

'RR'000	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2012	**2 101 237**	**13 954 906**	**16 056 143**	**1 236 198**	**17 292 341**
Acquisition of non-controlling interest	-	-	-	41 836	41 836
Net profit for the period	-	2 403 486	2 403 486	116 041	2 519 527
Balance at June 30, 2012	**2 101 237**	**16 358 392**	**18 459 629**	**1 394 075**	**19 853 704**
Balance at January 1, 2013	**2 101 237**	**19 371 435**	**21 472 672**	**1 460 670**	**22 933 342**
Net profit for the period	-	3 120 606	3 120 606	64 604	3 185 210
Balance at June 30, 2013	**2 101 237**	**22 492 041**	**24 593 278**	**1 525 274**	**26 118 552**

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

General Director Scherbina G. Ph.

Chief Accountant Ushakova E. V.

26 August, 2013

1. Key information about the Group

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.

The parent company of the Group – CJSC SSMO "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 March 7, 2013.

Principal subsidiaries of the Group are: CJSC "Aktiv", CJSC "SPb MFTC", OJSC "SMU "Electronstroy", CJSC "TSUN LenSpetsSMU", LLC "Vertikal", LLC "Daikar". LLC "UM Etalon", OJSC "Tekhnologicheskoye Osnascheniye".

Principal associates of the Group are: CJSC "LenSpetsSMU-Reconstruktsiya", CJSC "ZSM "Etalon", CJSC "Zatonskoe", CJSC "ART-Business-TV".

The parent company and the subsidiaries together hereinafter are referred to as "the Group". The Group's head office is located at Bogatyrskiy prospect, 2A, Saint-Petersburg.

CJSC SSMO "LenSpetsSMU" 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 Group holds the following certificates:
- 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).

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

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

2. Basis of preparation

(a) Basic principles

Statement of compliance

These consolidated interim 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 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.

Historical cost basis

The consolidated 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.

Adoption of new and revised Standards

In the current period, the Group 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 2013.

Standards issued but not yet effective

At the financial statements date, the following standards and interpretations were issued but not yet effective:

Standard/Interpretation	Effective for annual periods
Amendments to IAS 32, Financial Instruments: Presentation – offsetting of financial assets and liabilities	beginning on or after 1 January 2014
IFRS 9, Financial Instruments: Classification and Measurement	beginning on or after 1 January 2015
Amendments to IFRS 32, Classification of Rights Issues	beginning on or after 1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities	beginning on or after 1 January 2014

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group.

(b) Consolidation and accounting for business combinations

Subsidiary is an entity controlled by another entity.
Parent is an entity that controls one or more entities.
An investor, regardless of the nature of its involvement with an entity (the investee), determines whether it is a parent by assessing whether it controls the investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An investor controls an investee if and only if the investor has all the following:
(a) power over the investee;
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's return.

<u>Consolidation</u>
An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).

<u>Accounting for acquisition of an asset or group of assets that are not businesses</u>
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.

<u>Business combinations and goodwill</u>
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 that is deemed 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 shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of 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:

	Effective ownership interest	
	June 30, 2013	December 31, 2012
CJSC "TSUN LenSpetsSMU"	40,00%	40,00%
CJSC "SPb MFTC"	61,00%	61,00%
CJSC "Aktiv"	100,00%	100,00%
OJSC "SMU "Electronstroy"	99,24%	99,24%
LLC "Vertikal"	100,00%	100,00%
LLC "Daikar"	95,00%	95,00%
LLC "UM Etalon"	57,39%	57,39%
OJSC "Tekhnologicheskoye Osnascheniye"	100,00%	-

The share of LenSpetsSMU's in the authorized capital of the company CJSC 'TSUN LenSpetsSMU" constitutes 40%, but the nature of the relationship between CJSC SSMO 'LenSpetsSMU' and CJSC 'TSUN LenSpetsSMU" evidences existing of strong control, and therefore, to recognize CJSC 'TSUN LenSpetsSMU' being a subsidiary of the Group.

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

(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 statement of comprehensive income includes 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 associate 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

	Effective ownership interest	
	June 30, 2013	December 31, 2012
CJSC "LenSpetsSMU-Reconstruktsiya"	25,00%	25,00%
CJSC "ZSM "Etalon"	45,00%	45,00%
CJSC "Zatonskoe"	49,22%	49,22%
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 Russian roubles rounded to the nearest thousand.

(e) Going concern

These 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.

(f) Use of estimates and judgments

The preparation of the Group's consolidated 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 consolidated financial statements, as well as information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 22 – revenue recognition;
- Note 12 – inventory obsolescence provisions;
- Note 21 – provisions;
- Note 33 – contingencies.

3. Significant accounting policies

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

(a) Intangible assets

Intangible assets include software, trademarks and licenses.

(i) Software
Software is initially recognized at cost, including expenses for acquisition and bringing the asset into operation, and then carried at cost less accumulated amortization and impairment losses.

(ii) Other intangible assets
Purchased other intangible assets are stated at cost less accumulated amortization and impairment losses.

(iii) Subsequent expenditure

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

(iv) Useful life and amortization of intangible assets

Intangible assets are amortized during their estimated useful lives. For the purposes of consolidated financial statements the following estimated useful lives are used:

Software	1-10 years
Trademarks	10 years

(b) Property, plant and equipment

The Group's property, plant and equipment comprise mainly land, building and construction, equipment, vehicles, and other equipment such as office equipment and furniture.

(i) Carrying amount

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.

(ii) Subsequent repair and replacement 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:

Buildings and constructions	25-30 years
Machinery and equipment	3-5 years
Vehicles	5 years
Other assets	3–5 years

(c) 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 and the difference is recognized as an impairment loss in the statement of comprehensive income in the same period.

The Group determines the fair value of its investment property on an annual basis by engaging an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued and discloses the results of valuation in the notes to the financial statements.

(d) 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 Group 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 in the case of financial assets recorded at fair value through profit or loss, that are initially 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 measured at fair value. Gains and losses arising from net changes in fair value are recognised in consolidated statement of comprehensive income. Fair value of securities held for trading and quoted in an active market is determined from stock exchange quotations at the reporting date.

The Group'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. Amortization is included in finance income.

Fair values of securities held for trading that are not quoted in an active market are determined by using a valuation technique specifically designed by the Group.

Bank deposits are classified as held-to-maturity investments when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortization 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 Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(e) Inventories

For accounting of construction in progress the Group 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 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.

As 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 prepayments

Accounts receivable and prepayments are stated at cost less provision for impairment.
Accounts receivable on principal activities include amounts due from individuals and legal entities for apartments.
Other accounts receivable include rent receivables, amounts due under agreements for sale of shares in garage-building cooperatives and other.

Taxes recoverable comprise value added tax (hereinafter – VAT) receivable and other taxes receivable.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank accounts and highly liquid short-term (maturing within three months) bank deposits not bearing any agreed obligations.

(h) 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 Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

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

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

Non-financial assets

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

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

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

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

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

(i) Share capital

Share capital is represented by equity shares stated at historical cost, except for cash contributions received before January 1, 2003 which have been inflated. 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.

(j) Advances received on principal activity and accounts payable

In accordance with the share participation agreements the Group customers finance the construction works of the Group 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 Group transfers the amounts to the statement of comprehensive income on item-by-item basis. Accounts payable are stated at cost.

(k) Loans and borrowings

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

(l) Provisions

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

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

(m) Income tax

Income tax on the profit or loss for the period 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 period, 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 periods.

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 reporting date.

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.

(n) Revenue

<u>Revenue from sale of goods (flats, commercial premises, construction materials) and services (rent, agent services)</u>

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.

<u>Revenue from construction services</u>

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

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

For the second type of contracts revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

(o) 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 reporting 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.

As at December 31, 2012 the official exchange rate was USD 30,3727 roubles, euro 40,2286 roubles. As at June 30, 2013 the official exchange rate was USD 32,7090 roubles, euro 42,7180 roubles.

4. Acquisition of subsidiaries

In May 2013 the parent company of the Group has acquired 100% of share capital of OJSC «Tekhnologicheskoye Osnascheniye», the company registered in the Russian Federation and specialized in leasing out of production equipment.

Key information on the transaction

OJSC «Tekhnologicheskoye Osnascheniye» possesses lease incentive for a land plot located at 28 Beloostrovskaya street, Saint Petersburg. The company was acquired for the purpose of construction on the land plot leased by this company. The acquisition was accounted for as acquisition of a group of assets that does not constitute a business. The acquirer has identified and recognised the following individual identifiable assets acquired and liabilities assumed. The cost of the group was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

Рубли'000	Carrying value recognized on acquisition
Assets	
Property, plant and equipment and intangible assets	18 436
Inventories	360 775
Accounts receivable and prepayments	7 589
Deferred tax assets	814
Other current assets	83
Cash and cash equivalents	2 877
	390 574
Liabilities	
Accounts payable and other liabilities	5 174
	5 174
Total identifiable net assets at fair value	**385 400**
Total net assets acquired	385 400
Purchase consideration transferred	**385 400**

5. Operating segments

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

- *Residential development.* Includes construction of residential real estate (including flats, built-in premises, parking places).
- *Construction services.* Includes construction services for third parties.
- *Other operations.* Include production and sale of construction materials, lease out of properties and construction of stand-alone premises for commercial use. None of these meet any of the quantitative thresholds for determining reportable segments during the six months ended June 30, 2013 and 2012.

(a) Information about reportable segments

	Residential development		Construction services		Other		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
'RR'000	2013	2012	2013	2012	2013	2012	2013	2012
External revenues	7 731 555	9 343 756	585 959	243 262	1 603 547	1 201 475	**9 921 061**	**10 788 493**
Inter-segment revenue	-	-	-	-	457 019	309 476	**457 019**	**309 476**
Total segment revenue	7 731 555	9 343 756	585 959	243 262	2 060 566	1 510 951	**10 378 080**	**11 097 969**
Gross profit	3 745 143	3 554 378	299 605	(7 165)	306 050	423 818	**4 350 798**	**3 971 031**
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Reportable segment assets: inventory	22 619 643	19 982 562	-	-	690 967	666 232	**23 310 610**	**20 648 794**
Reportable segment liabilities: advances from customers	8 146 996	7 734 776	5 639 391	3 737 613	169 699	41 580	**13 956 086**	**11 513 969**

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

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Revenues		
Total revenue for reportable segments	10 378 080	11 097 969
Elimination of inter-segment revenue	(457 019)	(309 476)
Consolidated revenue	9 921 061	10 788 493
Profit for the period		
Gross profit for reportable segments	4 350 798	3 971 031
General and administrative expenses	(884 314)	(728 154)
Selling expenses	(125 295)	(123 409)
Other expenses, net	(30 312)	(97 417)
Finance income	326 037	235 099
Finance costs	(344 757)	(179 944)
Share of profit of equity accounted investees	591 769	84 122
Consolidated profit before income tax	3 883 926	3 161 328
	June 30, 2013	December 31, 2012
Assets		
Total assets for reportable segments: inventory	23 310 610	20 648 794
Total inventories	23 310 610	20 648 794
Liabilities		
Total liabilities for reportable segments: advances from customers	13 956 086	11 513 969
Total advances from customers	13 956 086	11 513 969

(c) Major customer

During the six months ended June 30, 2013, revenue from one customer of the Group, included into the segment "Construction services" amounted to 'RR'000 422 971 or 4% of the Group's total revenue (six months ended June 30, 2012: 'RR'000 222 940 or 2% of the Group's total revenue).

6. Property, plant and equipment

'RR'000	Land	Buildings and facilities	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Cost							
At December 31, 2012	9 188	491 483	1 681 648	65 272	28 867	88 385	2 364 843
Additions	-	63 488	50 022	3 121	3 797	11 125	131 553
Acquisition of subsidiary		28 212	519	-	40	-	28 771
Disposals	-	(53 822)	(10 886)	(725)	(10 040)	(447)	(75 920)
At June 30, 2013	**9 188**	**529 361**	**1 721 303**	**67 668**	**22 664**	**99 063**	**2 449 247**
Depreciation							
At December 31, 2012	-	(127 123)	(594 625)	(24 568)	(22 098)	-	(768 414)
Depreciation charge for the period	-	(24 074)	(94 094)	(5 098)	(2 878)	-	(126 144)
Acquisition of subsidiary		(10 170)	(150)	-	(15)	-	(10 335)
Depreciation on disposals	-	19 587	9 231	725	8 580	-	38 123
At June 30, 2013	-	**(141 780)**	**(679 638)**	**(28 941)**	**(16 411)**	-	**(866 770)**
Net book value							
At December 31, 2012	**9 188**	**364 360**	**1 087 023**	**40 704**	**6 769**	**88 385**	**1 596 429**
At June 30, 2013	**9 188**	**387 581**	**1 041 665**	**38 727**	**6 253**	**99 063**	**1 582 477**
Cost							
At December 31, 2011	9 188	386 097	570 963	47 230	27 516	2 773	1 043 767
Additions	-	219 612	673 225	10 778	3 440	87 616	994 671
Disposals	-	(12 878)	(5 812)	(2 381)	(1 075)	(4 192)	(26 338)
At June 30, 2012	**9 188**	**592 831**	**1 238 376**	**55 627**	**29 881**	**86 197**	**2 012 100**
Depreciation							
At December 31, 2011	-	(117 180)	(376 013)	(25 380)	(21 649)	-	(540 222)
Depreciation charge for the period	-	(30 787)	(59 707)	(3 276)	(1 513)	-	(95 283)
Depreciation on disposals	-	11 166	5 052	2 268	892	-	19 378
At June 30, 2012	-	**(136 801)**	**(430 668)**	**(26 388)**	**(22 270)**	-	**(616 127)**
Net book value							
At December 31, 2012	**9 188**	**268 917**	**194 950**	**21 850**	**5 867**	**2 773**	**503 545**
At June 30, 2013	**9 188**	**456 030**	**807 708**	**29 239**	**7 611**	**86 197**	**1 395 973**

The Group acquired production equipment under a number of finance lease agreements as a result of acquisition of LLC "UM Etalon". At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at June 30, 2013, the net book value of leased plant and machinery was 'RR'000 216 031 (December 31, 2012 - 'RR'000 416 209). The leased equipment secures lease obligations.

7. Investment property

'RR'000	As at June 30, 2013	As at June 30, 2012
Cost		
At the beginning of the period	**272 354**	**248 211**
Additions	10 015	36 533
Transfers from inventories	996 110	-
Disposals	(276 676)	(8 117)
At the end of the period	**1 001 803**	**276 627**
Accumulated depreciation impairment losses		
At the beginning of the period	**(39 662)**	**(30 320)**
Depreciation charge for the period	(2 188)	(5 555)
Transfers from inventories	(361 533)	-
Depreciation on disposals	40 282	1 222
At the end of the period	**(363 101)**	**(34 653)**

'RR'000	As at June 30, 2013	As at June 30, 2012
Net book value at the beginning of the period	**232 692**	**217 891**
Net book value at the end of the period	**638 702**	**241 974**

In 2013, the Group has transferred from inventories to investment property one item of stand-alone commercial property with the carrying amount of RR'000 634 577 (gross book value RR'000 996 110 and accumulated impairment loss RR'000 361 533), see note 12. The fair value of this item of property as at June 30, 2013 as determined by an independent valuer, equals to RR'000 706 514.

8. Intangible Assets

'RR'000	Software	Trademarks	Other intangibles	TOTAL
Cost				
At December 31, 2012	**4 573**	**1 196**	**37**	**5 806**
Additions	652	-	150	802
Disposals	(759)	(24)	-	(783)
At June 30, 2013	**4 466**	**1 172**	**187**	**5 825**
Amortization				
At December 31,2012	**(2 292)**	**(605)**	**(22)**	**(2 919)**
Amortization charge for period	(1 064)	(91)	(22)	(1 177)
Amortization on disposals	606	-	-	606
At June 30, 2013	**(2 750)**	**(696)**	**(44)**	**(3 490)**
Net book value				
At December 31, 2012	**2 281**	**591**	**15**	**2 887**
At June 30, 2013	**1 716**	**476**	**143**	**2 335**
Cost				
At December 31, 2011	**3 487**	**882**	**37**	**4 406**
Additions	377	290	-	667
Disposals	(477)	-	-	(477)
At June 30, 2012	**3 387**	**1 172**	**37**	**4 596**
Amortization				
At December 31,2011	**(1 539)**	**(411)**	**(17)**	**(1 967)**
Amortization charge for period	(473)	(90)	(2)	(565)
Amortization on disposals	477	-	-	477
At June 30, 2012	**(1 535)**	**(501)**	**(19)**	**(2 055)**
Net book value				
At December 31, 2011	**1 948**	**471**	**20**	**2 439**
At June 30, 2012	**1 852**	**671**	**18**	**2 541**

9. Investments in Associates

Summary of changes in the Group's investments in associated companies in the reporting period:

'RR'000	As at June 30, 2013	6 months ended June 30, 2013				As at December 31, 2012
	Investment in associated companies	Acquisition	Share of net profit	Impairment of investments	Dividends received	Investment in associated companies
CJSC "LenSpetsSMU-Reconstruktsiya"	46 977	-	7 299	-	-	39 678
CJSC "ZSM "Etalon"	90 765	-	9 544	-	-	81 221
CJSC "Zatonskoe"	2 702 355	-	574 926	-	-	2 127 429
CJSC "ART-Business-TV"	-	-		-	-	-
Total	2 840 097	-	591 769	-	-	2 248 328

Summary of associated companies assets, liabilities, equity, revenue and net profit / (losses):

'RR'000	As at June 30, 2013			As at December 31, 2012		
	Total assets	Total liabilities	Equity	Total assets	Total liabilities	Equity
CJSC "LenSpetsSMU-Reconstruktsiya"	1 245 115	1 057 208	187 907	498 930	340 219	158 711
CJSC "ZSM "Etalon"	217 938	16 238	201 700	196 221	15 729	180 492
CJSC "Zatonskoe"	15 451 834	13 460 857	1 990 977	13 026 890	12 203 987	822 903
CJSC "ART-Business-TV"	69 931	72 762	(2 831)	51 441	53 625	(2 184)

'RR'000	6 months ended June 30, 2013		6 months ended June 30, 2012	
	Revenue	Net profit / (losses)	Revenue	Net profit / (losses)
CJSC "LenSpetsSMU- Reconstruktsiya"	1 209 931	29 196	914 506	13 113
CJSC "ZSM "Etalon"	160 861	21 208	103 607	9 845
CJSC "Zatonskoe"	2 935 172	1 168 074	327 644	155 251
CJSC "ART-Business-TV"	-	(647)	-	(415)

10. Long-term financial investments

'RR'000	As at June 30,2013	As at December 31,2012
Loans given	16 277	15 087
Bank papers	200 000	-
Investments in share capital of other entities	435	435
Impairment provision in respect of investments in share capital of other entities	(380)	(380)
Total Long-term financial investments	**216 332**	**15 142**

Loans given to legal entities are denominated in Russian roubles and are stated at amortized cost. The effective interest rate as at June 30, 2013 was 11,84% and as at December 31, 2012 was 11,87 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 June 30, 2013
Deferred tax asset at the beginning of the period	109 598
Deferred tax liability at the beginning of the period	(206 702)
Net deferred tax at the beginning of the period	(97 104)
Changes in deferred tax included into the Statement of comprehensive income (Note 29)	(222 020)
Acquired through business combination	814
Net deferred tax at the end of the period	(318 310)
Including:	
Deferred tax asset	**99 106**
Deferred tax liability	**(417 416)**

The analysis of deferred tax assets and liabilities:

'RR'000	As at June 30, 2013	As at December 31, 2012
Property, plant and equipment and intangible assets	17 189	95 105
Financial investments	7 988	3 987
Loans given	539	407
Bank and corporate borrowings	13 574	13 663
Inventories	367 021	520 152
Trade accounts receivable	59 981	59 323
Trade accounts payable	2 217 636	2 349 499
Prepaid expenses	132	264
Provisions	40 499	69 808

'RR'000	As at June 30, 2013	As at December 31, 2012
Tax loss carry-forwards	87 869	93 359
Other	590	272
Deferred tax asset:	**2 813 018**	**3 205 839**
Offsetting deferred tax assets and liabilities*	(2 713 912)	(3 096 241)
Net deferred tax assets	**99 106**	**109 598**

'RR'000	As at June 30, 2013	As at December 31, 2012
Property, plant and equipment and intangible assets	(75 784)	(51 616)
Financial investments	(83 291)	(75 768)
Bank and corporate borrowings	(8 670)	(14 624)
Inventories	(901)	(2 384)
Trade accounts receivable	(700 654)	(746 810)
Trade accounts payable	(2 212 938)	(2 364 778)
Advances received	(9 247)	(18 633)
Provisions	(8 398)	(6 734)
Other current assets	(31 445)	(21 596)
Deferred tax liability:	**(3 131 328)**	**(3 302 943)**
Offsetting deferred tax assets and liabilities*	2 713 912	3 096 241
Net deferred tax liability	**(417 416)**	**(206 702)**
Net deferred tax at the end of the period	**(318 310)**	**(97 104)**

**Offset of deferred tax assets and liabilities is the elimination in the consolidation of deferred tax balances recorded on a net basis in each of the Group's companies.*

12. Inventories

'RR'000	As at June 30, 2013	As at December 31, 2012
Construction in progress of apartment building objects	16 285 370	9 889 979
Construction in progress of garage building objects	1 041 400	617 783
Total construction in progress	**17 326 770**	**10 507 762**
Apartments – finished goods	4 115 449	7 434 920
Built-in premises (non-residential)	1 763 833	2 984 491
Apartments for resale	33 967	33 836
Concrete and reinforced concrete items	16 583	6 339
Food	253	142
Other	1 491	5 044
Provision for impairment of goods	(3 873)	(368 193)
Total finished products and goods for resale	**5 927 703**	**10 096 579**
Construction materials	36 941	21 069
Inventories and utilities	4 378	9 556
Special clothing	1 341	760
Fuel	588	3 021
Other inventories	13 065	10 727
Provision for impairment of materials	(176)	(680)
Total raw materials	**56 137**	**44 453**
Total inventories	**23 310 610**	**20 648 794**

As of December 31, 2012, the amount of provision for impairment of goods of 'RR'000 361 533 out of 'RR'000 368 193 related to one item of stand-alone commercial property. In 2013, the Group has transferred this item of stand-alone commercial property with gross book value of 'RR'000 996 110 (31 December 2012: 'RR'000 996 110) from inventories to investment property, see note 7.

The construction in progress includes apartments under construction, infrastructure and non-residential property. Items of construction in progress in total amount of 'RR'000 17 326 770 are listed below:

'RR'000	June 30, 2013			December, 31 2012		
	Housing construction objects	Garage building objects	Total	Housing construction objects	Garage building objects	Total
Lastochkino Gnezdo	5 767 091	501 686	6 268 777	3 554 316	377 522	3 931 838
Tsarskaya stolitsa	2 523 514	208 437	2 731 951	577 139	137 098	714 237
Letniy	1 613 976	100 178	1 714 154	1 097 949	8 749	1 106 698
Samotsvety	1 529 170	-	1 529 170	1 457 205	-	1 457 205
Molodezhniy	1 267 842	35 811	1 303 653	919 307	23 420	942 727
Galant	1 094 937	41 618	1 136 555	672 612	41 535	714 147
Etalon-City	1 067 179	-	1 067 179	1 005 912	-	1 005 912
Rechnoy	604 386	127 825	732 211	205 324	3 776	209 100
28 Beloostrovskaya str.	360 681	-	360 681			
Dom na Koroleva	158 194	887	159 081	157 282	725	158 007
Galaktika	25 171	-	25 171	12 848	-	12 848
Technopark	11 067	24 958	36 025	10 034	24 958	34 992
Infrastructure items	111 493	-	111 493	75 226	-	75 226
Other	150 669	-	150 669	144 825	-	144 825
Total	16 285 370	1 041 400	17 326 770	9 889 979	617 783	10 507 762

The analysis evidences that that as at 30 June 2013 the largest non-completed item was housing complex "Lastochkino Gnezdo.

13. Short-term investments

'RR'000	As at June 30, 2013	As at December 31, 2012
Deposits	2 787 200	6 744 045
Financial assets held-for-trading	3 216 164	2 730 394
Bank papers	285 102	-
Loans given to legal entities	21 848	18 206
Total short-term investments	**6 310 314**	**9 492 645**

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

The Group acquired bank deposits totaling 'RR'000 2 787 200 for the period of 94-355 days at the effective interest rate of 8,04%.

14. Accounts receivable and prepayments

'RR'000	As at June 30, 2013	As at December 31, 2012
Long-term	**22 475**	**16 851**
Prepayments to suppliers on principal activities	22 475	16 851
Short-term	**19 532 422**	**13 228 843**
Trade accounts receivable	2 487 500	1 787 084
Accounts receivable in form of promissory notes	132 418	143 114
Prepayments to suppliers on principal activities	14 331 623	8 904 198
VAT recoverable	942 322	666 139
Other taxes recoverable	2 910	3 148
Other receivables	1 683 994	1 788 118
Provision for bad and doubtful debts	(48 345)	(62 958)
Total accounts receivable and prepayments	**19 554 897**	**13 245 694**

Movement in provision for bad and doubtful debts are shown below:

'RR'000	6 months ended June 30, 2013
As at January 1, 2013	**(62 958)**
Charge for the period	(6 405)
Balances written off	-
Unused provision released	21 018
As at June 30, 2013	**(48 345)**

Accounts receivable arise from the Group principal activities including sale of constructed items and construction works.

The major counterparts for prepayments are GUP "Vodokanal" (connecting to water supply), LLC "Peterburgskiy Vzglyad" (prepayment for a plot of land), LLC "LSS-story" (investments in construction) and LLC "Rosregionproekt Development" (design and survey works).

15. Other current assets

Other current assets include prepaid expenses, which are amounts paid in the current period and which relate to future periods, including insurance and other.

Prepaid expenses are analysed as following:

'RR'000	As at June 30, 2013	As at December 31, 2012
Insurance	25 483	35 056
Other	555	551
Total other current assets	**26 038**	**35 607**

16. Cash and cash equivalents

'RR'000	As at June 30, 2013	As at December 31, 2012
Cash in hand	1 587	1 718
Cash in bank — rouble accounts	289 854	217 456
Cash in bank — foreign currency accounts	318	4 067
Short-term bank deposits	2 795 500	4 631 227
Other cash and cash equivalents	31 202	14 950
Total cash and cash equivalents	**3 118 461**	**4 869 418**

17. Share capital

At June 30, 2013 authorized, issued and fully paid in share capital of the Group's parent comprised of 10 501 000 shares of par value 200 roubles (December 31, 2012: 10 501 000 shares).

Issued and fully paid in share capital:

	Number of shares	Carrying value, RR'000
As at January 1, 2012	10 501 000	2 101 237
Shares issued during the year	-	-
As at December 31, 2012	10 501 000	2 101 237
As at June 30, 2013	**10 501 000**	**2 101 237**

Carrying value of share capital includes inflation adjustment amounting to 'RR'000 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.

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

Number of shares unless otherwise stated	6 months ended June 30, 2013	6 months ended June 30, 2012
Issued shares at 1 January	10 501 000	10 501 000
Weighted average number of shares for the 6 months ended 30 June	10 501 000	10 501 000
Profit attributable to the owners of the Company, RR'000	3 120 606	2 403 486
Basic and diluted earnings per share, RR'000	0,30	0,23

The shareholders of the Company as at June 30, 2013 are listed below:

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

Dividends

No dividends were declared or paid by the Group during the six months 2013 and 2012.

18. Loans and borrowings

'RR'000	As at June 30, 2013	As at December 31, 2012
Long-term loans and borrowings		
Bank loans (principal amount)	3 403 245	4 171 160
Corporate loans (principal amount)	5 077 165	7 689 310
	8 480 410	**11 860 470**
Short-term loans and borrowings		
Bank loans (principal amount)	1 338 856	798 000
Bank loans (interest accrued)	7 481	13 363
Corporate loans (principal amount)	177 100	1 954 853
Corporate loans (interest accrued)	26 787	89 021
	1 550 224	**2 855 237**
Total loans and borrowings:	**10 030 634**	**14 715 707**

Terms and conditions of outstanding loans were as follows:

				As at June 30, 2013		As at December 31, 2012	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				**2 812 059**	**2 812 059**	**2 828 504**	**2 828 504**
Secured bank loan	EUR	5,81%	2014	1 071 367	1 071 367	1 352 644	1 352 644
Secured bank loan	EUR	EURIBOR 6M+3,2%	2017	1 048 191	1 048 191	599 710	599 710
Secured bank loan	EUR	4,264%	2014	692 501	692 501	876 150	876 150
Unsecured bank loans				**1 937 523**	**1 937 523**	**2 154 019**	**2 154 019**
Unsecured bank loan	RUB	9,50%	2015	1 253 252	1 253 253	1 250 000	1 250 000
Unsecured bank loan	USD	LIBOR 3M+6,5%	2015	654 180	607 453	607 453	607 453
Unsecured bank loan	RUB	11,00%	2015	30 090	30 090	-	-
Unsecured bank loan	RUB	9,00%	2013	1	1	5 980	5 980
Unsecured bank loan	USD	LIBOR 3M+6,5%	2014	-	-	290 586	290 586
Unsecured loans				**5 323 493**	**5 281 052**	**9 806 847**	**9 733 184**
Unsecured bonds	RUB	12,90%	2017	5 021 200	4 998 566	5 022 950	4 997 829
Unsecured bonds	USD	9,75%	2015	-	-	4 049 085	4 024 280
Unsecured bonds	RUB	14,5%	2013	-	-	609 300	608 359
Unsecured loan	RUB	0,5%	2013	178 993	178 993	4 486	4 486
Unsecured loan	RUB	3,85%	2016	84 245	65 756	82 680	62 394
Unsecured loan	RUB	3,85%	2016	38 435	37 117	37 730	35 220
Other unsecured loans	RUB	0,5%	2013-2014	620	620	616	616
Total loans				**10 073 075**	**10 030 634**	**14 789 370**	**14 715 707**

Bank loans are secured by mortgage of land plots with a carrying amount of 'RR'000 6 088 (mortgage value 'RR'000 47 722), buildings with a carrying amount of 'RR'000 141 727 (mortgage value 'RR'000 170 281), goods with a carrying amount of 'RR'000 447 304 (mortgage value 'RR'000 427 135).

The Group has fixed interest rates for several of the bank loans during 2013.

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

(a) Bank loans and borrowings

'RR'000	As at June 30, 2013
Balance at the beginning of the period (principal amount), undiscounted	**4 969 160**
Received (principal amount)	791 113
- *including foreign exchange difference*	*305 705*
Repaid (principal amount)	(1 018 172)
- *including foreign exchange difference*	*(102 246)*
Balance at the end of the period (principal amount)	**4 742 101**
Balance at the beginning of the period (interest)	**13 363**
Charged to expenses (interest)	42 879
Capitalized (interest)	96 029
-including foreign exchange difference	*1 128*
Offset with other income	5 771
Interest paid	(150 561)
-including foreign exchange difference	*(429)*
Balance at the end of the period (interest)	**7 481**
Balance at the end of the period (principal amount) analysed by currency	**4 742 101**
- Russian roubles	1 280 000
- US dollars	654 180
- Euro	2 807 921
Total loans and borrowings (principal amount) at the end of period, undiscounted	**4 742 101**
Payable within 12 months after the financial statement date (principal amount)	1 338 856
Payable within 2 years after the financial statement date	2 138 085
Payable within 3 years after the financial statement date	217 515
Payable within 4 years after the financial statement date	1 047 645
Payable within 5 years after the financial statement date	-
Total loans and borrowings (interest) at the end of the period	**7 481**
Payable within 12 months after the financial statement date	7 481
Total amount payable (principal amount and interest) at the end of the period, undiscounted	**4 749 582**
Total amount payable (principal amount and interest) at the end of the period, amortized cost	**4 749 582**
Including interest	7 481

(b) Corporate loans

'RR'000	As at June 30, 2013
Balance at the beginning of the period (principal amount), undiscounted	**9 717 826**
Received (principal amount)	387 820
-including foreign exchange difference	*215 021*
Repaid (principal amount)	(5 370 926)
Recognized gain	-
-including foreign exchange difference	(108 165)
Repurchased obligations	*561 986*
Balance at the end of the period (principal amount)	**5 296 706**
Balance at the beginning of the period (interest)	**89 021**
Charged to expenses (interest)	2 015
Capitalized (interest)	510 537
-including foreign exchange difference	*1 307*
Effect on accounts receivable	(44)
Repaid (interest)	(582 504)
	-
-including foreign exchange difference	*(1 588)*
Repurchased obligations	7 762
Balance at the end of the period (interest)	**26 787**
Balance at the end of the period (principal amount) analyzed by currency	**5 296 706**
- Russian roubles	5 296 706
- US dollars	-
Total amount payable at the end of the period (principal amount and interest), undiscounted	**5 323 493**
Payable within 12 months after the financial statement date (principal amount)	177 100
Payable within 12 months after the financial statement date (interest)	26 787

'RR'000	As at June 30, 2013
Payable within 2 years after the financial statement date	37 601
Payable within 3 years after the financial statement date	1 650 000
Payable within 4 years after the financial statement date	2 282 000
Payable within 5 years after the financial statement date	1 150 005
Total amount payable (principal amount and interest) at the end of the period, amortized cost	**5 281 052**

Effective capitalization rate during the six months ended June 30, 2013 was 5,18%.

19. Advances received within the principal activities

Advances received include amounts received by the Group as prepayments from buyers of construction objects. Advances are transferred to income as soon as the construction items 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, it is probable that the economic benefits associated with the transaction will flow to the Group.

20. Accounts payable and other liabilities

'RR'000	As at June 30, 2013	As at December 31, 2012
Non-current liabilities	**158 566**	**110 663**
Other trade accounts payable	125	-
Finance lease liabilities	158 044	110 554
Other payables	397	109
Current liabilities	**6 923 950**	**2 686 668**
Accounts payable — trade	5 751 499	1 701 186
Wages and salaries payable	162 257	120 744
VAT payable	725 602	522 445
Other taxes payable	53 971	61 667
Finance lease liabilities	32 377	58 151
Other payables	198 244	222 475
Total accounts payable	**7 082 516**	**2 797 331**

Finance lease liabilities are payable as follows:

'RR'000	As at June 30, 2012		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	12 629	19 748	32 377
Between one and five years	127 705	30 339	158 044
	140 334	**50 087**	**190 421**

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

Currency	Nominal interest rate	Year of maturity	As at June 30, 2013	
			Face value	Carrying amount
RUB	15,19%-16,94%	2014 - 2016	190 421	190 421

Financial lease liabilities were acquired in conjunction with the acquisition of LLC "UM-Etalon".

21. Provisions

'RR'000	As at June 30, 2013	As at December 31, 2012
Provision for deferred works, short-term	299 625	539 766
Provision for court litigations	5 543	9 575
Total provisions	**305 168**	**549 341**

Movements in provisions are presented below:

'RR'000	6 months ended June 30, 2013
Provision for deferred works, short-term	
As at January 1, 2013	**539 766**
Provisions made during the period	-
Provisions used during the period	(240 141)
Unused provision released	-
As at June 30, 2013	**299 625**

'RR'000	6 months ended June 30, 2013
Provision for court litigations	
As at January 1, 2013	**9 575**
Provisions made during the period	-
Provisions used during the period	(4 032)
As at June 30, 2013	**5 543**

22. Revenue

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Finished goods - apartments	4 515 201	3 913 028
Commissioning of construction objects	2 714 363	4 759 242
Built-in premises	501 991	671 486
Building and assembly works	585 959	243 262
Rent	475 226	312 166
Concrete and ferroconcrete production	398 870	150 974
Agent services	250 068	257 883
Auto services sales	73 460	40 853
Sale of other works and services	158 958	236 619
Other products, goods, materials	246 965	202 980
Total revenue	**9 921 061**	**10 788 493**

23. Cost of sales

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Finished goods - apartments	2 147 278	1 957 703
Commissioning of construction objects	1 547 536	3 550 830
Built-in premises	291 599	280 845
Building and assembly works	286 353	250 427
Salary and other personnel expenses	198 979	191 751
Maintenance expenses	135 399	22 353
Depreciation of fixed assets	107 573	72 064
Repair and maintenance	6 738	5 046
Depreciation of investment property	2 187	4 987
Amortization of intangible assets	-	26
Other products, goods, materials	667 220	379 972
Other services	179 401	101 458
Total cost of sales	**5 570 263**	**6 817 462**

24. 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 at the end of the reporting period.

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

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Revenue from long-term construction contracts in the reporting period	493 161	238 228
Cost incurred under long-term construction contracts in the reporting period	(246 328)	(238 228)
Total profit recognized under long-term construction contracts	**246 833**	-
Aggregated cost incurred and recognized profit under long-term construction contracts outstanding at the end of reporting period	1 132 329	1 040 690
Unbilled receivables	-	371 052
Billings in excess of work completed	32 022	6 003
Advances for which the related work has not started	5 639 391	3 069 012
Retentions relating to construction contracts	-	4 242

25. Selling expenses

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Advertisement and marketing	121 718	112 758
Agency services	3 054	10 304
Other	523	347
Total selling expenses	**125 295**	**123 409**

26. General and administrative expenses

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Wages, salaries and other personnel expenses	519 861	442 716
Management services	193 312	162 993
Maintenance services	50 994	54 685
Security service	29 433	14 847
Consulting, legal, audit services	17 601	10 873
Rent	12 938	4 515
Depreciation of property, plant and equipment	2 961	2 500
Depreciation of intangible assets	1 178	540
Transportation expenses	167	2 427
Other	55 869	32 058
Total general and administrative expenses	**884 314**	**728 154**

27. Other operating income/(expenses), net

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Income from sale and other disposal of tangible assets	46 764	16 783
Profits / (losses) of the previous periods	36 002	(4 780)
Net income from sale of financial assets	27 870	20 642
Change in bad debts provision	14 613	2 743
Change in provision for impairment of goods for resale	2 766	(1 854)
Fines, penalties and forfeits receivable	2 663	6 468
Change in provision for impairment of materials	504	-
Change in provision for ongoing court litigations	-	(8 109)
SPA settlements after commissioning of the house by State commission	(278)	269
Income / (expenses) from accounts receivable / (payable) write-off	(1 041)	6 750
Social expenses and other payments to employees	(2 284)	(7 069)
Fines, penalties and forfeits payable	(3 023)	(1 859)
Charity	(3 310)	(2 257)
Expenses on social objects maintenance	(3 577)	(4 241)
Warranties	(3 647)	(4 041)
Compensation of other operations costs	(9 623)	(11 467)
Bank commissions	(19 657)	(18 630)
Other income / (expenses)	(22 384)	(2 077)
Total other operating income / (expenses)	**62 358**	**(12 729)**

28. Net finance income/(expenses)

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Interest income	326 037	235 099
Change in fair value of financial assets	(1 074)	(902)
Expenses from finance lease	(10 001)	(63)
Interest expense	(42 459)	(61 294)
Net foreign exchange loss	(291 223)	(117 685)
Total net financial expenses	**(18 720)**	**55 155**

29. Income tax

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

(a) Income tax expense

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Current income tax expense	(476 696)	(487 258)
Expenses from origination and reversal of temporary differences	(222 020)	(154 543)
Total income tax expense	**(698 716)**	**(641 801)**

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

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Profit before income tax	3 883 926	3 161 328
Theoretical tax charge at the applicable statutory rate on reporting date (20%)	(776 786)	(632 266)
Adjustments for items of expenses which are not deductible for taxation purposes	78 070	(9 535)
Total income tax expense	**(698 716)**	**(641 801)**

30. Related-party transactions

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

'RR'000	6 months ended June 30, 2013	6 months ended June 30, 2012
Key management personnel	63 587	76 179

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

'RR'000	Associated companies		Jointly controlled entities	
	As at June 30, 2013	As at December 31, 2012	As at June 30, 2013	As at December 31, 2012
Long-term loans given				
Loans given (principal amount)	-	-	4 342	360
Short-term loans given				
Loans given (principal amount)	-	-	-	-
Loans given (interest)	-	-	7	8
Short-term accounts receivable and prepayments				
Trade accounts receivable	63 044	43 692	242 236	181 543
Accounts receivable in form of promissory notes	-	-	122 228	131 088
Prepayments to suppliers on principal activities	2 425 586	2 102 917	2 039 908	213 669
Other receivables	2 287	176	644 125	655 661
Short-term loans and borrowings				
Corporate borrowings (principal amount)	-	-	177 700	4 900

'RR'000	Associated companies		Jointly controlled entities	
	As at June 30, 2013	As at December 31, 2012	As at June 30, 2013	As at December 31, 2012
Corporate borrowings (interest accrued)	-	-	1 908	198
Short-term accounts payable				
Advances received	-	-	18	576
Trade accounts payable	548 823	185 523	2 721 665	579 409
Other accounts payable	-	-	6 554	6 306
Notes payable	-	-	6 704	6 704

In the reporting period the Group performed transactions with related parties as following:

'RR'000	Associated companies		Jointly controlled entities	
	6 months ended June 30, 2013	6 months ended June 30, 2012	6 months ended June 30, 2013	6 months ended June 30, 2012
Revenue	333 949	104 956	611 632	514 267
Cost of sales	(79)	-	(34 876)	(32 330)
Selling expenses	-	-	(29 021)	(33 934)
General and administrative expenses	-	-	(200 482)	(171 828)
Other income	1 295	1 001	14 598	13 075
Other expenses	(38)	(70)	(21 576)	(17 693)

31. 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.

June 30, 2013 'RR'000	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings (including future interest expense)	2 425 364	10 308 566	-	12 733 930
Trade and other payables	6 144 377	158 566	-	6 302 943
Provisions	305 168	-	-	305 168
Total	**8 874 909**	**10 467 132**	**-**	**19 342 041**

December 31, 2012 'RR'000	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings (including future interest expense)	4 160 578	14 324 777	-	18 485 355
Trade and other payables	2 102 556	110 663	-	2 213 219
Provisions	549 341	-	-	549 341
Total	**6 812 475**	**14 435 440**	**-**	**21 247 915**

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 June 30, 2013, 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'000 517 376 (December 31, 2012: RR'000 696 158), 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.

Fair values versus carrying amounts

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

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.

32. 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. 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 Etalon Group 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.

33. Contingencies

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 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 and the impact of such differences on the operations and the financial position of the Group may be significant.

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, as the relevant authorities may have different interpretations, the Group management recognizes existence of the risk which may significantly impact the consolidated financial statements.

Guarantees issued

As at June 30, 2013 the Group's companies issued guarantees amounting to 'RR'000 776 496 (December 31, 2012 – 'RR'000 229 357).

34. Events subsequent to the reporting date

On July 16 2013 the Company repaid the second 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 EUR 8 353. The outstanding balance of the credit line reduced to '000 EUR 16 707.

On July 16, 2013 the Company received '000 RR 100 000 within renewable credit line granted by CJSC "GlobexBank".

On July 29, 2013, international rating agency Standard & Poor's has upgraded the long-term credit rating of the Company to 'B+' from 'B' with a stable outlook, upgraded the Russian national rating to 'ruA+' from 'ruA' and confirmed the short-term credit rating at 'B' level. Long-term credit rating of the Company's 02 series bonds (4-02-17664-J dated November 20, 2012) has also been upgraded to 'B+' and 'ruA+'.

In July 2013, the Company received 2 tranches of credit line granted by OJSC "Alfa-Bank" (import-export financing of the project "Lastochkino Gnezdo") in the amount of '000 EUR 2 895. The outstanding balance of the credit line increased to '000 EUR 27 420.