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# **CJSC SSMO “LenSpetsSMU”**

## **Separate financial statements**

*For the year ended 31 of December, 2010  
including independent auditor's report*

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## Independent auditor's report

To the shareholders of CJSC SSMO "LenSpetsSMU"

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the CJSC SSMO "LenSpetsSMU" 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

Moscow, Russian Federation  
28 April 2011



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Company CJSC SSMO "LenSpetsSMU"

Separate statement of financial position as at December 31, 2010

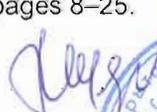
	Notes	At December 31, 2010 RR'000	At December 31, 2009 RR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	4	168 137	569 213
Investment property	5	427 278	156 731
Intangible assets	6	283	475
Long-term financial investments	7	4 351 838	2 683 309
		<b>4 947 536</b>	<b>3 409 728</b>
<b>Current assets</b>			
Inventories	9	19 041 032	22 034 225
Short-term investments	10	1 586 477	1 975 435
Accounts receivable and advances	11	4 494 421	4 517 611
Income tax receivable		-	45
Other current assets	12	1 400	1 641
Cash and cash equivalents	13	2 304 408	1 312 820
		<b>27 427 738</b>	<b>29 841 777</b>
<b>Total assets</b>		<b>32 375 274</b>	<b>33 251 505</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	1 237	1 237
Retained earnings		9 170 913	5 388 681
		<b>9 172 150</b>	<b>5 389 918</b>
<b>Non-current liabilities</b>			
Long-term borrowings	14	7 761 773	3 020 805
Deferred tax liabilities	8	416 251	526 784
		<b>8 178 024</b>	<b>3 547 589</b>
<b>Current liabilities</b>			
Short-term borrowings	14	1 406 007	2 783 102
Advance payments received on primary activity	15	9 376 272	15 381 725
Accounts payable and other liabilities	15	3 813 259	5 985 760
Income tax payable		429 562	163 411
		<b>15 025 100</b>	<b>24 313 998</b>
<b>Total equity and liabilities</b>		<b>32 375 274</b>	<b>33 251 505</b>

The statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 8–25.

General director

Chief accountant

April 28, 2011



 Scherbina G.Ph.  

 Ignatyeva L.M.

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Company CJSC SSMO "LenSpetsSMU"

Separate statement of comprehensive income for the year ended December 31, 2010

	Notes	2010 RR'000	2009 RR'000
Revenue	17	16 839 048	16 113 392
Cost of sales	18	(10 813 133)	(10 557 818)
<b>Gross profit</b>		<b>6 025 915</b>	<b>5 555 574</b>
Selling expenses	20	(33 061)	(21 028)
General and administrative expenses	20	(624 630)	(360 162)
Taxes, other than income tax		(63 693)	(45 051)
Other operating income and expenses (net)	21	(24 682)	(151 329)
<b>Operating profit</b>		<b>5 279 849</b>	<b>4 978 004</b>
Net finance expenses	22	(397 453)	(1 254 106)
<b>Profit before income tax</b>		<b>4 882 396</b>	<b>3 723 898</b>
Income tax expense	8	(1 100 164)	(828 696)
<b>Net profit for the year*</b>		<b>3 782 232</b>	<b>2 895 202</b>
Basic and diluted earnings on the share		3 782,23	2 895,20

\* No Other comprehensive income was recognized by the Company in both 2010 and 2009.

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 8–25.

General director

Chief accountant

April 28, 2011



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Company CJSC SSMO "LenSpetsSMU"

Separate statement of changes in equity for the year ended December 31, 2010

	Share capital	Retained earnings	Total
	RR'000	RR'000	RR'000
<b>Balance at December 31, 2008</b>	<b>1 237</b>	<b>2 493 479</b>	<b>2 494 716</b>
Net profit for the year	-	2 895 202	2 895 202
<b>Balance at December 31, 2009</b>	<b>1 237</b>	<b>5 388 681</b>	<b>5 389 918</b>
Net profit for the year	-	3 782 232	3 782 232
<b>Balance at December 31, 2010</b>	<b>1 237</b>	<b>9 170 913</b>	<b>9 172 150</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 8–25.

General director

Chief accountant

April 28, 2011



Scherbina G.Ph.

Ignatyeva L.M.

	2010 RR'000	2009 RR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	4 882 396	3 723 898
Adjustments for:	399 353	1 259 786
<i>Depreciation and amortization</i>	70 086	25 612
<i>Profit from sale of financial assets</i>	(13 805)	(244 661)
<i>Other assets disposal</i>	40 444	7 595
<i>Foreign exchange loss</i>	19 747	218 955
<i>Interest expense</i>	602 203	751 482
<i>Interest income</i>	(111 896)	(128 509)
<i>Income from participation in related organizations</i>	-	(11 375)
<i>Provision for bad debts</i>	(79 157)	131 205
<i>Provision for impairment of inventories</i>	(8 391)	73 463
<i>Provisions for ongoing court litigations</i>	41 100	21 195
<i>Provision for impairment of financial assets</i>	72 217	4 125
<i>Changes in amortized cost of financial assets</i>	(112 601)	412 178
<i>Profit from sale of investment in subsidiary</i>	(120 594)	-
<i>Other income and expenses</i>	-	(1 479)
<b>Operating profit before changes in working capital</b>	<b>5 281 749</b>	<b>4 983 684</b>
Decrease/(Increase) in Accounts receivable and advances	54 943	(616 885)
Decrease in Inventories	3 334 789	2 529 492
Decrease in Accounts payable and advances from the principal activity	(9 834 381)	(4 620 263)
Change in Other assets and liabilities	241	(310)
<b>Cash generated from operations</b>	<b>(1 162 659)</b>	<b>2 275 718</b>
Income tax paid	(944 503)	(130 888)
<b>Net cash (used in)/ from operating activities</b>	<b>(2 107 162)</b>	<b>2 144 830</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment and intangible assets	(80 390)	(225 575)
Proceeds from sales of property, plant and equipment and intangible assets	59	1 873
Sale/(purchase) of securities and other financial assets	177 148	(689 196)
Repayment of deposits	-	1 185 672
Dividends received	-	11 375
Contributions to share capital	(559 140)	(373 050)
Disbursements of loans given	(884 420)	(587 770)
Repayments of loans given	1 403 241	65 681
Interest received	105 564	78 650
Proceeds from sale of investment in subsidiary	142 099	-
<b>Net cash from/(used in) investing activities</b>	<b>304 161</b>	<b>(532 340)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	11 892 429	8 701 816
Repayment of borrowings	(8 316 448)	(8 470 460)
Interest paid	(760 063)	(771 248)
<b>Net cash from/(used in) financing activities</b>	<b>2 815 918</b>	<b>(539 892)</b>
Influence of change in exchange rate on cash and cash equivalents	(21 329)	218 476
<b>Net increase in cash and cash equivalents</b>	<b>991 588</b>	<b>1 291 074</b>
Cash and cash equivalents at the beginning of the year	1 312 820	21 746
<b>Cash and cash equivalents at the end of the year</b>	<b>2 304 408</b>	<b>1 312 820</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 8–25.

General director

Chief accountant

April 28, 2011



Scherbina G.Ph.

Ignatyeva L.M.

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### **Company CJSC SSMO "LenSpetsSMU"**

*Notes to the separate financial statements for the year  
ended December 31, 2010  
(Thousand of Russian roubles)*

## **1. Principal activities**

The company CJSC SSMO "LenSpetsSMU" (further "the Company") 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 constructed by the Company constitutes around 8% of the whole building market of Saint-Petersburg. In 2010 CJSC SSMO "LenSpetsSMU" constructed buildings of total area 212 784.9 sq. m.

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

CJSC 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.

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

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

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

## **2. Basis of preparation**

### **General**

#### **Statement of compliance**

These separate 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 Company maintains its accounting records in accordance with the legislative requirements of Russian Accounting Standards (RAS). The accompanying 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 Company 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.

#### **Functional and presentation currency**

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

All financial information in the individual financial statements is presented in thousand of Russian roubles rounded to the nearest thousand.

#### **Financial Reporting in Hyperinflationary Economies**

In the period starting from beginning of 90-ties till December, 31 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 December, 31 2002.

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**Company CJSC SSMO "LenSpetsSMU"**

*Notes to the separate financial statements for the year  
ended December 31, 2010  
(Thousand of Russian roubles)*

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 financial statement date. The Company 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.

**Going concern**

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

**Use of estimates**

Management of the Company 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 individual financial statements in conformity with IFRS. Actual results could differ from those estimates.

**3. Significant accounting policies**

**Cash and cash equivalents**

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

**Accounts receivable**

Accounts receivable represent amounts due from individuals and legal entities for apartments sold.

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

**Inventories**

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

Sales of construction objects are performed through execution of share participation agreements (SPA) with future owners of housing (shareholders) or through executing agreements of preliminary sale. (PSA).

Notwithstanding considerable differences in two schemes, risks associated with buildings being constructed are transferred to shareholders (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 in LenSpetsSMU books as inventories, within "Production in process".

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

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

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

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**Company CJSC SSMO "LenSpetsSMU"**

Notes to the separate financial statements for the year  
ended December 31, 2010  
(Thousand of Russian roubles)

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

**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 separate statement of comprehensive income. Where the Company 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 Company 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 Company 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 Company.

**Fixed assets**

Fixed assets are stated at historical cost less accumulated depreciation and impairment losses. At each reporting date the Company's management assesses whether there is any indication of fixed assets impairment. If any such indications exist, the Company estimates the recoverable amount of the asset which is the higher of its net realizable value and value in use. Depreciation of assets under construction and assets not commissioned for operation starts from the date when such assets are put into operation. Depreciation is calculated using a straight line method based on the following estimated useful lives:

	<u>Years</u>
Land	Not applicable
Buildings	25-30
Machinery and equipment	3-5
Other	5

The carrying amount of assets included in Property, Plant and Equipment is reviewed at each reporting date in order to estimate whether their carrying amount is higher than their recoverable amount. In this case the carrying amount is reduced to its recoverable amount. The impairment loss is recognized in the statement of comprehensive income of the current accounting period within administrative and operating expenses.

Repair and reconstruction costs incurred for items of Fixed assets are recognized in the statement of comprehensive income as incurred within other administrative and operating expenses in case when they are not capitalized in the structure of corresponding fixed asset value.

**Advance payments received on principal activities and accounts payable**

In accordance with the share participation agreements and preliminary sales agreements investors (shareholders, future housing owners) invest in LenSpetsSMU paying advances intended for housing building.

At finishing building, objects of building commissioning by the state commission, registration of ownership rights for housing by the shareholders and passing over the objects of building to the respective owners there performed writing-off of the deferred income and advances received to the financial result for each object.

Accounts payable are stated at cost.

**Intangible assets**

**Software**

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

### **Other Intangible assets**

Other intangible assets acquired by the company are shown at cost less accumulated amortization and accumulated impairment losses.

### **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 statement of comprehensive income as an expense as incurred.

### **Useful life and amortization of intangible assets**

Intangible assets are amortized during their estimated useful lives and analyzed for impairment if there are any.

### **Deferred taxes**

Deferred taxes are calculated using the balance sheet liability method which is based on the concept of temporary differences. Temporary differences are differences between carrying amounts of assets and liabilities recognized in statement of financial position and the amounts used for taxation purposes. In accordance with this method deferred taxes are recognized for all temporary differences except for some particular cases. The amount of deferred tax assets and deferred tax liabilities 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 financial statement 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.

### **Loans and borrowings**

Loans and borrowings are recognized initially at fair value, net of any transaction costs incurred. Subsequently to initial recognition, loans and borrowings are stated at amortized cost using effective interest rate. Interest expense related to construction or purchase of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalized in the cost of that asset.

### **Share capital**

Share capital is stated at historical cost, except for the part that was received in cash before January 01, 2003 and which was adjusted for the effects of inflation, contributions to share capital in the form of assets other than cash are recognized at fair value on the date of contribution.

Ordinary dividends are recognized in equity in the period in which they are declared. Dividends declared after the reporting date are disclosed in the note "Events after the reporting period".

### **Accidental expenses**

Accidental expenses are recognized in financial reporting only at occurrence of circumstances in which there may be needed assets to regulate liabilities the amount of which can be evaluated with sufficient reliability. Accidental income is not recognized in financial reporting but is disclosed when there appears probability of economical benefit receipt.

### **Income and expenses related to principal activity**

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.

### **Interest income and expense**

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

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**Company CJSC SSMO "LenSpetsSMU"**

*Notes to the separate financial statements for the year  
ended December 31, 2010  
(Thousand of Russian roubles)*

**Employee benefits**

***Pensions***

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

***Post-employment benefits***

According to existing legislation the Company has an obligation to provide termination benefits to employees. In Company's management opinion such circumstances couldn't be considered as regular so they do not affect financial statements and Company's activity.

**4. Fixed assets**

RR'000	TOTAL	Land plots	Buildings and constructions	Machines and equipment	Vehicles	Other FA
<b>Cost as at 31 of December, 2009</b>	<b>692 056</b>	-	<b>476 087</b>	<b>214 389</b>	-	<b>1 580</b>
Additions	298 876	-	239 479	59 283	-	114
Disposals	(691 880)	-	(647 799)	(44 023)	-	(58)
<b>Cost as at 31 of December, 2010</b>	<b>299 052</b>	-	<b>67 767</b>	<b>229 649</b>	-	<b>1 636</b>
<b>Accumulated depreciation as at 31 of December, 2009</b>	<b>(122 843)</b>	-	<b>(83 632)</b>	<b>(38 411)</b>	-	<b>(800)</b>
Depreciation charge for the year	(81 404)	-	(21 866)	(59 192)	-	(346)
Depreciation on disposals	73 332	-	60 154	13 125	-	53
<b>Accumulated depreciation as at 31 of December, 2010</b>	<b>(130 915)</b>	-	<b>(45 344)</b>	<b>(84 478)</b>	-	<b>(1 093)</b>
<b>Net book value as at 31 of December, 2009</b>	<b>569 213</b>	-	<b>392 455</b>	<b>175 978</b>	-	<b>780</b>
<b>Net book value as at 31 of December, 2010</b>	<b>168 137</b>	-	<b>22 423</b>	<b>145 171</b>	-	<b>543</b>
<b>Cost as at 31 of December, 2008</b>	<b>316 358</b>	<b>33 343</b>	<b>233 884</b>	<b>39 197</b>	<b>59</b>	<b>9 875</b>
Additions	455 502	-	271 169	183 840	-	493
Disposals	(79 804)	(33 343)	(28 966)	(8 648)	(59)	(8 788)
<b>Cost as at 31 of December, 2009</b>	<b>692 056</b>	-	<b>476 087</b>	<b>214 389</b>	-	<b>1 580</b>
<b>Accumulated depreciation as at 31 of December, 2008</b>	<b>(102 397)</b>	-	<b>(69 314)</b>	<b>(24 536)</b>	<b>(59)</b>	<b>(8 488)</b>
Depreciation charge for the year	(57 998)	-	(36 937)	(20 891)	-	(170)
Depreciation on disposals	37 552	-	22 619	7 016	59	7 858
<b>Accumulated depreciation as at 31 of December, 2009</b>	<b>(122 843)</b>	-	<b>(83 632)</b>	<b>(38 411)</b>	-	<b>(800)</b>
<b>Net book value as at 31 of December, 2008</b>	<b>213 961</b>	<b>33 343</b>	<b>164 570</b>	<b>14 661</b>	-	<b>1 387</b>
<b>Net book value as at 31 of December, 2009</b>	<b>569 213</b>	-	<b>392 455</b>	<b>175 978</b>	-	<b>780</b>

**5. Investment property**

RR'000	As at 31 December, 2010	As at 31 December, 2009
<i>Cost</i>		
<b>At the beginning of accounting period</b>	<b>157 591</b>	<b>260</b>
Additions	282 043	157 331
<b>At the end of accounting period</b>	<b>439 634</b>	<b>157 591</b>
<i>Depreciation</i>		
<b>At the beginning of the accounting period</b>	<b>(860)</b>	<b>(19)</b>
Depreciation charge for the period	(11 496)	(841)
<b>At the end of the accounting period</b>	<b>(12 356)</b>	<b>(860)</b>
<b>Net book value at the beginning of accounting period</b>	<b>156 731</b>	<b>241</b>
<b>Net book value at the end of accounting period</b>	<b>427 278</b>	<b>156 731</b>

Investment property includes premises leased out under operating rent agreements.

**6. Intangible assets**

Intangible assets of the Company at the reporting date include software and trade marks to the total amount of RR'000 283. Intangible assets were not impaired.

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**Company CJSC SSMO "LenSpetsSMU"**

Notes to the separate financial statements for the year  
ended December 31, 2010  
(Thousand of Russian roubles)

**7. Financial assets (long-term)**

RR'000	As at 31 December, 2010	As at 31 December, 2009
Investments in equity capital of subsidiaries and associates	3 196 581	2 651 423
Long-term equity investments	431	434
Bonds	1 081 105	-
Loans given to legal entities	150 443	35 957
Provision for impairment of financial assets	(76 722)	(4 505)
<b>TOTAL</b>	<b>4 351 838</b>	<b>2 683 309</b>

Investments in equity capital of subsidiaries and associates are analyzed as follows:

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Long-term investments in subsidiaries and associates</b>		
CJSC "Zatonskoye"	1 643 409	1 643 408
CJSC "AKTIV"	973 050	973 050
LLC "Daikar"	472 500	-
LLC "Kamenka"	-	21 507
CJSC "Building materials factory "Etalon"	91 075	75
LLC "Vertikal"	9 000	9 000
OJCS "SMU" "Elektronstroy"	4 889	1 725
CJSC "SPb MFTC"	2 616	2 616
CJSC "CUN"	40	40
CJSC "LenSpetsSMU – Reconstruction"	2	2
<b>TOTAL</b>	<b>3 196 581</b>	<b>2 651 423</b>
Provision for impairment of investments in CJSC "Building materials factory "Etalon"	(72 050)	-
<b>TOTAL including provision</b>	<b>3 124 531</b>	<b>2 651 423</b>

Long-term loans given of CJSC SSMO "LenSpetsSMU" in total amount of RR'000 112 951 include the loans given to LLC "UM "Etalon" and other loans given to companies and persons in total amount RR'000 37 492. Loans given to legal entities are denominated in Russian roubles and are stated at amortized cost using effective interest rate. The effective interest rate was 12.96% at December 31, 2009 and 11.92% at December 31, 2010.

**8. Income taxes**

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Deferred tax assets</b>	<b>2 887 538</b>	<b>1 996 274</b>
Fixed assets & Intangible Assets	20 020	85 058
Financial investments	25 790	545
Trade accounts receivable	28 931	112 836
Inventories	936 510	1 441 119
Prepaid expenses	4 441	21 980
Loans and borrowings	-	256 000
Accounts payable	1 871 846	78 736
Tax offset	(2 887 538)	(1 996 274)
<b>Deferred tax asset:</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities</b>	<b>(3 303 789)</b>	<b>(2 523 058)</b>

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RR'000	As at 31 December, 2010	As at 31 December, 2009
Fixed assets & Intangible Assets	(17)	-
Advances received	-	(1 918 754)
Loans and borrowings	(17 202)	-
Investments	-	(33 558)
Accounts receivable	-	(112 488)
Inventories	(60)	-
Accounts payable	(2 905 378)	(458 258)
Other current assets	(381 132)	-
Tax offset	2 887 538	1 996 274
<b>Deferred tax liability:</b>	<b>(416 251)</b>	<b>(526 784)</b>
<b>Total deferred liabilities, net</b>	<b>(416 251)</b>	<b>(526 784)</b>

Income tax expense of the Company consist of the following items:

RR'000	2010	2009
Current income tax	(1 210 697)	(433 146)
Expenses from origination and reversal of temporary differences	110 533	(395 550)
<b>TOTAL income tax</b>	<b>1 100 164</b>	<b>(828 696)</b>

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

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

RR'000	2010	2009
Profit before income tax	4 882 396	3 723 898
Theoretical tax charge at the applicable statutory rate (20%) in the reporting period	(976 479)	(744 780)
Adjustments for items of income and expenses which are not assessable or deductible for taxation purposes	(123 685)	(83 916)
<b>Итого расходы по налогу на прибыль</b>	<b>(1 100 164)</b>	<b>(828 696)</b>

## 9. Inventories

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Goods for re-sale</b>	<b>10 155 883</b>	<b>11 586 390</b>
Secondary market apartments	23 815	29 118
Apartments belonging to the Company	7 325 006	9 645 572
Built-in premises (non residential)	2 811 960	1 997 189
Provision for impairment of goods	(4 898)	(85 489)
<b>Construction materials</b>	<b>34 535</b>	<b>28 114</b>
<b>Other</b>	<b>862</b>	<b>1 020</b>
Provision for impairment of materials	(18 985)	-
<b>Work in progress</b>	<b>8 868 737</b>	<b>10 418 701</b>
Construction in progress of apartment and commercial building	8 404 785	9 832 371
Construction in progress of garage building objects	463 952	586 330
<b>TOTAL</b>	<b>19 041 032</b>	<b>22 034 225</b>

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Work in progress in amount RR'000 8 868 737 include the following objects:

RR'000	December 31, 2010			December 31, 2009		
	Housing construction objects	Garage building objects	Total	Housing construction objects	Garage building objects	Total
Yubileiny kvartal	3 539 188	375 497	3 914 685	5 293 358	565 256	5 858 614
Orbita	2 686 912	37 948	2 724 860	1 540 718	20 925	1 561 643
Talisman	611 194	4 650	615 844	369 032	-	369 032
Lastochkino Gnezdo	443 949	-	443 949	-	-	-
Etyud	290 597	44 013	334 610	-	-	-
Prestige	298 723	1 844	300 567	-	-	-
AURA (business centre)	123 231	-	123 231	933 138	-	933 138
Technopark	94 260	-	94 260	88 057	-	88 057
Housing Complex "Yuzhniy "Raduga"	-	-	-	502 774	-	502 774
Dom na Optikov	-	-	-	317 116	-	317 116
Infrastructure objects	248 737	-	248 737	459 402	-	459 402
Other objects	67 994	-	67 994	328 776	149	328 925
<b>TOTAL</b>	<b>8 404 785</b>	<b>463 952</b>	<b>8 868 737</b>	<b>9 832 371</b>	<b>586 330</b>	<b>10 418 701</b>

The comparison on item-by-item basis evidences that the largest construction objects in 2010 were "Yubileiny kvartal", "Orbita" and "Talisman".

Flats redeemed for further re-sale (in particular – at the secondary market) in amount of RR'000 23 815 as well as flats built at Company's own account or at account of saved assets of depositors in amount of RR'000 7 325 006 are included in goods for re-sale.

**10. Financial assets (short-term)**

RR'000	As at 31 December, 2010	As at 31 December, 2009
Financial assets at fair value through profit or loss	1 552 893	1 423 781
Loans given, including:	33 584	551 654
Loans given to related companies	-	406 382
Other loans given	33 584	145 272
<b>TOTAL</b>	<b>1 586 477</b>	<b>1 975 435</b>

**11. Accounts receivable and advances**

RR'000	As at 31 December, 2010	As at 31 December, 2009
Accounts receivable for the principal activities	777 668	1 375 702
Accounts receivable accompanied promissory notes	211 175	247 524
Advances to suppliers for the principal activities given	2 561 322	1 866 542
Other accounts receivable and advances	616 296	283 257
Accounts receivable for finance lease	-	77 123
Provision for bad debts	(97 441)	(133 910)
Provision for finance lease receivables	-	(45 555)
VAT recoverable	425 045	846 606
Other taxes receivable	356	322
<b>TOTAL</b>	<b>4 494 421</b>	<b>4 517 611</b>

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The major debtors for advances given are CJSC "Sankt-Petersburgskie elektricheskie 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).

Other accounts receivable and advances given include settlements under rent agreements, settlements for flats redeemed from individuals, settlements for shares in garage building cooperatives (GBC) and other settlements.

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

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Accounts receivable for principal activities</b>	<b>724</b>	<b>465 455</b>
CJSC "CUN"	724	465 026
CJSC "SPb MFTC"	-	352
CJSC "AKTIV"	-	77
<b>Advances given</b>	<b>1 850 692</b>	<b>496 090</b>
CJSC "LenSpetsSMU – Reconstruction"	627 840	-
CJSC "AKTIV"	-	3
CJSC "Zatonskoye"	1 222 852	496 087
<b>Other accounts receivable and advances given</b>	<b>369 618</b>	<b>5 674</b>
LLC "Daikar"	313 748	-
CJSC "CUN"	55 803	5 113
CJSC "AKTIV"	67	174
CJSC "SPb MFTC"	-	245
LLC "Kamenka"	-	142
<b>TOTAL</b>	<b>2 221 034</b>	<b>967 219</b>

**12. Other current assets**

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Prepaid expenses</b>		
Insurance	1 400	1 604
Other	-	37
<b>TOTAL</b>	<b>1 400</b>	<b>1 641</b>

**13. Cash and cash equivalents**

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Cash</b>		
Cash on hand	681	949
Current and settlement accounts	24 730	10 521
Deposits	2 278 497	1 301 000
Cash in transit	500	350
<b>TOTAL</b>	<b>2 304 408</b>	<b>1 312 820</b>

**14. Loans and borrowings**

Long-term bank borrowings include a loan from OJSC "Alfa-Bank" initially recognized at RR'000 372 993 (amortised cost RR'000 369 598) and a loan from OJSC "Bank Zenit" initially recognized at RR'000 600 000 (amortised cost RR'000 600 000).

**a) Bank borrowings**

RR'000	<u>As at 31 December, 2010</u>
<b>Undiscounted principal amount at the beginning of the year</b>	<b>2 496 446</b>
Received (principal amount)	5 408 474
including foreign exchange difference	189 055
Repaid (principal amount)	(6 931 927)
including foreign exchange difference	(125 320)
<b>Balance at the end of the year (principal amount)</b>	<b>972 993</b>
<b>Balance at the beginning of the year (interest)</b>	<b>10 916</b>
Charging of an expenses (interest)	136 469
Capitalised (interest)	5 515
including foreign exchange difference	197
Interest offset	-
Paid up (interest)	(152 710)
including foreign exchange difference	(305)
<b>Balance at the end of the year (interest)</b>	<b>190</b>
<b>Balance at the end of the year (principal amount) in currency of liabilities</b>	<b>972 993</b>
- Russian roubles borrowings	600 000
- US dollars borrowings	372 993
<b>Total borrowings (principal amount) at the end of year at cost</b>	<b>972 993</b>
Payable within 12 months after the reporting date (principal amount at the end of the year)	
Payable within 2 years after the reporting date (principal amount at the end of the year)	
Payable within 3 years after the reporting date (principal amount at the end of the year)	372 993
Payable within 4 years after the reporting date (principal amount at the end of the year)	600 000
Payable within 5 years after the reporting date (principal amount at the end of the year)	
<b>Total borrowings (interest) at the end of year at cost</b>	<b>190</b>
Payable within 12 months after the reporting date (interest at the end of the year)	190
<b>Total borrowings (principal amount and interest) – undiscounted amount</b>	<b>973 183</b>
<b>Total borrowings (principal amount and interest) – at amortized cost</b>	<b>969 806</b>
including interest	208

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**b) Corporate borrowings**

Long-term borrowings comprise bond issues (with OJSC "Alfa Bank" and OJSC "Promsvyabank" acted as underwriters) in the total amount of RR'000 2 300 000 at initial cost (RR'000 2 281 108 at amortised cost), borrowings from North Star B. V. in amount of RR'000 4 571 535 at initial cost (RR'000 4 511 067 at amortised cost).

Short-term borrowings comprise bond issues (with OJSC "Alfa Bank" and OJSC "Promsvyabank" acted 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 LLC "Vertikal" in amount of RR'000 8 469, and other borrowings in the total amount of RR'000 600.

RR'000	As at 31 December, 2010
<b>Balance at the beginning of the year (principal amount) without effect of discounting of the future payments</b>	<b>3 109 085</b>
Received (principal amount)	6 706 225
including foreign exchange difference	32 835
Repaid (principal amount)	(1 628 155)
including foreign exchange difference	(118 314)
<b>Balance at the end of the year (principal amount)</b>	<b>8 187 155</b>
<b>Balance at the beginning of the year (interest), transient</b>	<b>11 984</b>
Charged to expenses (interest)	460 267
Capitalised (interest)	228 916
including foreign exchange difference	30
Paid up (interest)	(607 658)
Other movements	(58)
<b>Balance at the end of the year (interest)</b>	<b>93 451</b>
Balance at the end of the year (principal amount) denominated in the following currencies	8 187 155
- Russian roubles borrowings	3 615 620
- US dollars borrowings	4 571 535
<b>Total balance at the end of the year (principal amount and interest) - undiscounted</b>	<b>8 280 606</b>
Payable within 12 months after the reporting date (principal amount at the end of the year)	1 315 620
Payable within 12 months after the reporting date (interest at the end of the year)	93 451
Payable within 2 years after the reporting date at the end of the year	1 700 000
Payable within 3 years after the reporting date at the end of the year	2 520 045
Payable within 4 years after the reporting date at the end of the year	1 554 322
Payable within 5 years after the reporting date at the end of the year	1 097 168
<b>Total borrowings (principal amount and interest) at the year end - at amortized cost</b>	<b>8 197 974</b>
including interest	95 955

**15. Liabilities**

RR'000	As at 31 December, 2010	As at 31 December, 2009
Payables to suppliers and contractors	2 397 256	2 793 297
Advance payments received on primary activity	9 376 272	15 381 725
Salary payable	22 402	13 350
Taxes payable	10 909	10 256
Accrued provisions	1 200 212	2 475 869
Short-term finance lease liability	-	92 701
Other short-term liabilities	182 480	600 287
<b>TOTAL</b>	<b>13 189 531</b>	<b>21 367 485</b>

CJSC "CUN" sales apartments and built-in- premises mainly through concluding contracts of preliminary purchase and sale (PPS).

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The cash means received by CJSC "CUN" from buyers of the future apartments and transferred to CJSC SSMO under the contracts of preliminary purchase and sale, are presented as advance payments received on primary activity.

In addition to the contracts of preliminary purchase and sale the scheme of realization of habitation under individual share contracts is used by the Company. The cash means received CJSC SSMO «LenSpetsSMU» from shareholders under contracts of individual share are presented as advance payments received on primary activity. Advance payments received on primary activity write-off on financial result when construction objects accepted by the state commission.

Short-term liabilities in the amount of RR'000 2 397 256 include settlements for construction works with related companies in amount of RR'000 2 013 085, with the company CJCS "Novator" in amount of RR'000 81 228, with CJCS "EtalonProekt" in amount of RR'000 73 612 (construction works), and with CJCS "UK "Etalon" in amount of RR'000 in amount of RR'000 114 805 (management services).

Significant part of accounts payable of CJSC SSMO "LenSpetsSMU" is presented by settlements with subsidiaries and associated companies:

RR'000	As at 31 December, 2010	As at 31 December, 2009
<b>Payables to suppliers and contractors</b>	<b>2 013 085</b>	<b>1 808 846</b>
CJSC "SPb MFTC"	1 091 059	1 499 918
CJSC "LenSpetsSMU – Reconstruction"	787 251	186 458
CJSC "AKTIV"	116 765	100 547
CJSC "Zatonskoye"	18 010	-
CJSC "Building materials factory "Etalon"	-	20 529
CJSC "CUN"	-	933
OJCS "SMU" "Elektronstroy"	-	461
<b>Advance payments received on primary activity</b>	<b>186 512</b>	<b>1 106 884</b>
CJSC "CUN"	186 512	1 096 130
CJSC "AKTIV"	-	10 754
<b>Other short-term liabilities</b>	<b>13 086</b>	<b>199 527</b>
CJSC "CUN"	12 685	175 553
CJSC "AKTIV"	231	21 304
CJSC "Building materials factory "Etalon"	-	2 500
CJSC "SPb MFTC"	170	170
<b>TOTAL</b>	<b>2 212 683</b>	<b>3 115 257</b>

**16. Share capital**

As at December 31, 2010 declared, registered and paid-up share capital of the Company consisted of 200 shares of nominal value of 1 000 roubles per share. Shareholders of the company as at December 31, 2010 were:

Shareholder	Quantity of shares	Participation share, %	Nominal RR'000	The sum corrected taking into account inflation RR'000
CJSC "The operating company - building holding "Etalon – LenSpetsSMU"	985	98,5%	197	1 218
Other	15	1,5%	3	19
	<b>1 000</b>	<b>100%</b>	<b>200</b>	<b>1 237</b>

**17. Revenue**

RR'000	2010	2009
Apartments belonging to the Company	13 042 233	12 134 431
Built-in premises	1 627 392	1 878 826
Commissioning of construction objects	1 421 289	1 635 763
Construction works	669 728	394 761
Sales of other works, goods and services	22 182	41 680
Rent	32 026	16 931
Secondary market apartments	24 198	11 000
<b>TOTAL</b>	<b>16 839 048</b>	<b>16 113 392</b>

**18. Cost of sales**

RR'000	2010	2009
Apartments belonging to the Company	7 704 101	7 214 041
Built-in premises	1 506 060	1 597 607
Commissioning of construction objects	944 138	1 316 438
Construction works	518 846	324 120
Depreciation	43 897	23 298
Salary and other personal expenses	2 467	-
Secondary market apartments	16 228	6 179
Material expenses	-	3 469
Maintenance expenses	165	901
Other costs	77 231	71 765
<b>TOTAL</b>	<b>10 813 133</b>	<b>10 557 818</b>

**19. 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	2010	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	<b>210 764</b>	<b>617 592</b>

**20. Selling and administrative expenses**

RR'000	2010	2009
<b>Selling expenses</b>	<b>33 061</b>	<b>21 028</b>
Advertising and marketing	30 470	15 991
Agent services	2 454	5 037
Other costs	137	-
<b>General and administrative expenses</b>	<b>624 630</b>	<b>360 162</b>
Wages and other payments to personnel	331 687	178 995
Management services	190 259	114 260
Rent	3 573	14 188
Consulting, legal, audit and other professional services	7 046	12 774
Maintenance expenses	29 274	10 102
Transport	3 719	6 122
Depreciation	16 434	2 314
Communication services	1 811	1 833
Materials	-	1 283
Other costs	40 827	18 291
<b>Total selling and administrative expenses</b>	<b>657 691</b>	<b>381 190</b>

**21. Other operating income and expenses (net)**

RR'000	2010	2009
Income from sale of financial assets	13 805	224 976
Income from sale of subsidiaries	123 517	-
Fees, fines, forfeits	28 900	56 573
Income from participation in other organizations	-	11 375
Provision for bad debts	79 157	(131 205)
Reimbursement of expenses Golden Ring	-	(83 299)
Bank commissions	(89 824)	(77 378)
Provision for impairment of materials	8 391	(73 463)
Provision for ongoing court litigations	(41 100)	(21 195)
Settlements after acceptance of the house by State commission	(16 498)	(19 194)
Social expenses and other payments to employees	(11 465)	(12 716)
Income / (expenses) from write off of accounts payable/accounts receivable	7 045	(9 503)
Provision for impairment of financial assets	(72 217)	(4 125)
Social services	(3 743)	(3 943)
Expenses related to disposal of tangible assets, including fixed assets	(66 670)	(3 840)
Reimbursement of expenses from other operations	(10 716)	(272)
Other	26 736	(4 120)
<b>Total other operating income and expenses (net)</b>	<b>(24 682)</b>	<b>(151 329)</b>

**22. Net financial expenses**

RR'000	2010	2009
Interest expense	111 896	128 509
Interest income	(596 546)	(744 540)
Change in amortized cost of financial assets	112 601	(412 178)
Net foreign exchange loss	(19 747)	(218 955)
Interest from finance lease	(5 657)	(6 942)
<b>TOTAL</b>	<b>(397 453)</b>	<b>(1 254 106)</b>

**23. Related party transactions**

The Company performs various transactions with its subsidiaries, listed below:

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

Also, the Company performs transactions with the following associated companies:

	As at 31 December, 2010	As at 31 December, 2009
CJSC "LenSpetsSMU – Reconstruction"	25,00%	25,00%
CJSC "Building materials factory "Etalon"	45,00%	25,00%
CJSC "Zatonskoye"	48,00%	48,00%

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

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

RR'000	2010	2009
Key management personnel	57 871	24 674

**24. Financial risk management**

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

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

**Credit risk**

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

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

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

**Liquidity risk**

Liquidity risk is the risk that arises when the maturity of financial assets and liabilities does not match. An unmatched position could potentially enhance profitability but could also lead to losses. The Company manages its

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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 Company's financial liabilities at the reporting date based on contractual undiscounted payments.

31 December 2010 RR'000	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings	1 409 261	7 844 528	-	9 253 789
Trade and other payables	3 802 350	-	-	3 802 350
	<b>5 211 611</b>	<b>7 844 528</b>	-	<b>13 056 139</b>

31 December 2009 RR'000	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings	2 690 994	2 937 437	-	5 628 431
Trade and other payables	5 975 504	-	-	5 975 504
	<b>8 666 498</b>	<b>2 937 437</b>	-	<b>11 603 935</b>

**Foreign currency risk**

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

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

At December 31, 2010, if the Russian rouble weakened against US dollar or euro by 15% with all other variables held constant, the Company'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 US dollars and euro.

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

**Interest rate risk**

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

**Capital risk management**

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

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

## 25. Industry risk management

The Company 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 Company is rendering construction services, which include implementing all stages of the investment and construction process. Industry risks of the Company include the following:

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

## 26. 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 issued

CJSC SSMO "LenSpetsSMU" issued guarantees related to main activities amounting to RR'000 501 616. (on December 31, 2009 – RR'000 3 356 889 ).

## 27. Events after the reporting period

On February 2011:

- borrowings from OJSC "Alfa-Bank" increased in amount of euro'000 10 658, total amount of loan became euro'000 19 906.
- Group paid interest of North Star SA loan in amount USD'000 3 413.
- Group paid coupon yield on 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.

On March 2011 Group paid coupon yield on 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 .